

**OKAN UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES**

**CRISIS MANAGEMENT IN BANKING SECTOR AFTER
2000 AND THE CASE OF ŞEKERBANK**

Hale ONAR

**THESIS
FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION**

**ADVISOR
Dr. Bülent GÜNCELER**

ISTANBUL, December 2011

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**YÜKSEK LİSANS TEZİ
İŞLETME ANABİLİM DALI
İŞLETME YÖNETİMİ PROGRAMI**

Tezin Enstitüye Teslim Edildiği Tarih: 17.12.2011
Tezin Savunulduğu Tarih:

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İSTANBUL, Aralık 2011

PREFACE

This thesis examines the economic crises within the banking sector in 21th century, especially the effects of the last experienced crises and strategies of crisis management majorly throughout the World and then overall of Şekerbank and it analyzes how the economic crisis is managed in a private bank.

I began to work in Şekerbank in the period when the crisis began to Show its effects. While the entire World was affected negatively, the fact that Turkey passed over the crisis in a better way relatively made me curious about this study. In this way, I got curious about an academic research concerning what kind of studies are done for the crisis that affects the entire World and what kind of studies will be done.

In the writing process of the thesis, the theses that were written before and the native and foreign books, gazettes were examined, many sources were used, literature was scanned for 2008 global crises and the following crises, different country experiences were examined and it was intended to come to a certain result.

I thank to my consultant teacher, Dear Dr. Bülent Günceler who never hesitated to share his ideas with me, all my family, mainly, my mother, father and brother who support me in the significant phases of my study and who never hesitate to help me, I thank to Şekerbank chairman and the board members, I thank to Unit Managers, who contributed to my questionnaire survey, I thank to mainly Şekerbank T.A.Ş. General Director, Dear Meriç Uluşahin who supported me for Şekerbank part of my study, also I thank to all my acquaintances, I am grateful to them for their support. I wish that this thesis will be a beneficial source for the ones who are interested in the subject.

HALE ONAR

Aralık 2011, İstanbul

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SUMMARY

CRISIS MANAGEMENT IN BANKING SECTOR AFTER 2000 AND THE CASE OF ŞEKERBANK

As a developing country, Turkey comes up against many cyclical crises. Banking and finance institutions have been influenced seriously from these crises due to their sectoral structure, the characteristic of the products they manufacture, present and important regulations have been developed and implemented for these. In this sense, hindering potential crisis before their emergence and a situation analysis following the end of crisis period are of great importance. The purpose of this study is to put forward the effects of the Crisis management in Banking Sector following 2000 and the last experienced Global Crisis and the strategies of the crisis management. Especially the exposure level of the global economic crisis that began in United States of America in the last quarter of 2008 and that affects all the countries from West to the east in various ways on the World banks and Şekerbank T.A.Ş. in Turkey and the applied administrative and organizational policies applied during this process were researched in parallel with the perceptions of the Unit Managers. Within the bank; the study was carried out through the usage of questionnaires and interview with the Unit Managers, the study revealed that the work load and number of the employees of the institutions decreased due to the crisis, because they were directly affected by the crisis. Despite of the general administrative and organizational effects of the crisis on many institutions, as in the cases some others, Şekerbank could survive with the help of the re-structuring and precautions made during 2000 and 2001 crises. The results showed that no significant negative impacts were experienced in terms of administrative, organizational policies and applications; however some measures were necessary to be taken.

Keywords: Crisis, Crisis Management, Effects of Banking Crisis, Şekerbank
Date: 01.11.2011

ÖZET

CRISIS MANAGEMENT IN BANKING SECTOR AFTER 2000 AND THE CASE OF ŞEKERBANK

Gelişmekte olan bir ülke olan Türkiye ekonomik yapısına bağlı olarak dönem dönem finansal krizler yaşamıştır. Yaşanan krizlerden bankacılık sektörü ve finansal kurumlar sektörel yapıları, ürettikleri ve sundukları ürünlerin özellikleri nedeniyle önemli ölçüde etkilenmişlerdir ve bunlara yönelik düzenlemeler, yeniden yapılandırma çalışmaları gündeme gelerek uygulanmıştır. Bu bağlamda bankacılık sektöründe potansiyel kriz veya krizler ortaya çıkmadan önlenmesi, kriz dönemi sonrasında ise durum analizi yapılması büyük bir önem taşımaktadır. Bu çalışmanın amacı, 2000 sonrası Bankacılık Sektöründe Kriz yönetimi ve Son yaşanan Küresel Krizin etkilerini ve kriz yönetim stratejilerini ortaya koymaktır. Özellikle 2008 yılının son çeyreğinde ABD’de başlayan, batıdan doğuya doğru tüm ülkeleri çeşitli şekillerde etkileyen küresel ekonomik krizden dünya bankaları yanı sıra Türkiye özelinde Şekerbank T.A.Ş’nin etkilenme düzeyi ve bu süreçte uygulanan yönetsel ve örgütsel politikalarının neler olduğu Birim Müdürleri algıları doğrultusunda araştırılmıştır. Banka içinde Birimlerin Müdürleri ile anket ve mülakat yöntemi kullanılarak gerçekleştirilen çalışmada; kriz nedeniyle birçok kurumun iş hacminin ve müşteri sayısının önemli oranda azaldığı ve bu yönüyle kurumların krizden etkilendiği ortaya çıkmıştır. Birçok kurum üzerindeki yönetsel ve örgütsel etkiler göz önüne alındığında, Şekerbank özelinde 2000 ve 2001 krizi dönemindeki yeniden yapılanma ve düzenlemeler sayesinde küresel krizde yönetsel, örgütsel politika ve uygulamalar anlamında önemli olumsuzluklar yaşanmamış ancak banka içinde bazı tedbirlerin alındığı ortaya çıkmıştır.

Anahtar Kelimeler: Kriz, Kriz Yönetimi, Bankacılık Krizinin Etkileri,Şekerbank
Tarih: 01.11.2011

LIST OF SYMBOLS

- μ : Population Average
 σ : Standard Deviation

LIST OF ABBREVIATIONS

BRSA	:	Banking Regulation and Supervision Agency
CBT	:	Central Bank of Turkey
CPI	:	Consumer Price Index
EU	:	European Union
GDDI	:	Government Domestic Debt Instruments
GDS	:	Government Debt Securities
R&D	:	Research and Development
OECD	:	Organisation for Economic Co-operation and Development
SDIF	:	Saving Deposits Insurance Fund
TAS	:	Turan Alem Securities
TURKSTAT	:	Turkish Statistical Institute
USA	:	United States of America
WB	:	World Bank
WPI	:	Wholesale Price Index

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1. INTRODUCTION

Banking sector has a vital role in terms of permanency of production activities. Banks pick up the saving surpluses of economic institutions, transfer them to the real sector as credit and finance the investment expenditures. The relationship between the bank credits and investment expenditures is working with monetary transmission channel that is inferred as bank credit channel.

Such channel sometimes can't be able to run in an effective way according to the internal and the external shocks. Banking crises are important problems that affect the function of credit channel.

In this context, world had testified four big financial crises that create important and deep impression on the whole financial system in 1990's. These are; the crisis in exchange rate mechanism in the European Monetary System at 1992, the crisis in Mexico at 1994, the Southeast Asia crisis that had started with the devaluation of Thailand's currency Baht at 1997 and finally the crises in Russia and Brazil at 1998.

November 2000, February 2001 crises in Turkey and another crisis in 2008 that has begun in America are the most important financial crises of the recent times.

Although there are a lot of mutual characteristics of these crises, the key feature between them is there isn't enough transparency about the institutional structure intended for financial system operation. Moreover these crises, by the reason of their global effects, has brought into a sharp relief as a necessity of taking precautions to ensure the financial stability first in the country and then in the worldwide.

1.1. DEFINITION OF THE CRISE AND CHARACTERISTICS

There are many definitions made to explain the concept of crisis. It is seen that, also in the fields within the social sciences, no common agreement of definition has been made on the "crisis" and "crisis management". One of the most important reasons of this is that the concept of crisis has the specification of obscurity. Crisis is not only caused by management errors but also it may emerge without the direct error of the management and most of the time, without any warning and insidiously. The crisis that emerges in different forms is a threat risk for one part; whereas, for the other part, it

may be an opportunity. Sometimes, the crisis may be a threat risk or an opportunity for both of the parts.

Oxford Dictionary defines crises as “the turning point to change for the better or go worse” In Turkish dictionary, it is defined as “a situation or depression the result of which may be dangerous” (Narbay, 2006)

For the organizations, crisis has a threat risk for the stability of the system, the questioning of the basic assumptions and beliefs, high preferential targets, organizational image, legality, profitableness and eventually the survival (Ulmer, 2002)

According to Pra and Sohodol, (2004) crisis is a situation that makes the prediction and prevention mechanisms of an organization, threatens the high-level targets and working process, endangers the life of an organization, limits the reaction period before the decision is made and applied and creates a suspension as it has a feature surprise for the decision-makers. According to Mitroff (1996), crisis is a definition that is not accepted universally, also when crisis is mentioned, it affects the whole of an organization and that may eradicate the organization.

The business firms and its managers that have prepared insufficiently cannot have the ability to react against the difficulties that emerged with the change in movement area of the operations. The crisis managers should be educated with the purpose of preventing the organizational weaknesses accompanying the crisis and corruption, reflexes, insufficient preparations with high amount of cost and the pathological elements such as memory loss. Modern crises require the collective abilities beyond their fields. Modern crises are the result of the collective elements. The features of the modern crises are as indicated below (Boin and Lagadec, 2000)

- They have great impacts and they influence the larger populations.
- They result in high economic costs; they predominate over the classical precaution abilities.
- They result in unique, extensive and interrelated problems, influence the life-sources
 - Due to the multi- perspective reflection, it results in a snowball dynamic effect.
 - The urgent systems such as the systems that are old- fashioned, not applied and damaging give a wrong reaction to you.
- During this urgent process, the extreme obscurity never goes.

- In time the threats undergo a transformation.
- The clumping comes into the question.
- There may be significant communication problems with the trustable organizations, the media and the mistreated.
 - There may be an every kind of significant risk. For each organization, there may be the cases when the sales decrease and key personnel diminish due to some reasons and there may be the times when the degree of disorder increases.

However, these are not the reasons of the absolute crises. Crises are the unprecedented moments in the history of the organizations. The cases that damage and disturb the business firms cannot reach the level of the crisis to give obscurity, a threat that creates a problem, a surprise and a response without the time pressure. (Ulmer vd, 2007). The features that are special to crisis can be classified as a threat or opportunity.

1.1.1. Obscurity

The most distinctive and tension-creating feature of the crisis and the crises periods is obscurity. (Batlaş, 2002). As the obscurity increases, the crises become intensified. Something needs to be done in the atmosphere of obscurity; but it is hard to decide what will be done according to what. This sense of indecisiveness complicates the crisis. During the time in which it is needed to behave in a right-minded manner and make a decision in a logical manner, being immobilized due to the obscurity, being panicked, sinking into pessimism complicates everything and creates a chaos. As a result of this, everything becomes complicates; even if it is temporary, the system becomes upside down (Tutar, 2007)

The only specification of all the preparations concerning the negative factors is that they are based on the possibilities. The number of the possible developments in theory and the great amount of expenses done therefore, their limitations and the precautions need to be intensified. The organizations such as an army and police that make preparations in case of an every kind of negative possibility cannot be ready for every development. This preparation is, on one hand, associated with the number of the factors that influence the disorder and on the other hand, it is associated with the constant change of them. In contrast with this, the possibilities of the business firms are more limited; because getting prepared for the crises and dealing with them is never regarded as a target of the business firms (Glaeser, 2005).

1.1.2. Time Pressure

The time pressure that occurs in the atmosphere of obscures creates suspension among the group members. (Ataman, 2001)

One of the most significant features that distinguish the crises from the routine situations is the obligation to respond urgently. It is obligatory to respond and act fast. In terms of this, the crisis situation can be defined as the changes that require adapting in a speedy and fast manner. (Kupperman, vd., 1975)

According to Pira and Sohodol (2004), time pressure is the difference between the current time and the last moment to decide. In the moment of crisis, there is no chance for the managers to examine in a detailed way and make researches and carry out long-term meetings due to the fact that time pressure is felt so deeply, it is obligatory to make a quick decision and apply quickly. Organization managers are obliged to carry out many tasks in a limited time.

1.1.3. Threat

According to Richardson (1994), crises are the situations that threaten the strategic purposes of the business firms. According to this, if the strategic purposes and targets of the business firms under threat, they can define this situation as a crisis. According to Ataman (2001); crisis threatens the purpose and sources of the business firms and makes them face with the danger or not surviving.

1.1.4. Surprise

Surprises are the unexpected and sudden changes that disturb the organization. The incapability of the decision-makers in the perception of the crises may increase the surprise quality. However, generally surprises are the results of the errors in the evaluation of the environment; collection, processing and distribution of information (Pira and Sohodol, 2004)

The surprises that cause the crises, often present dangerous opportunities to the organizations. The surprise that threatens one organization may present an opportunity for the other organization. For the organization to transform this opportunity into another kind of opportunity in parallel with the targets of the organization, the management needs to make the right decisions in relation with the capabilities of theirs. The organizations that diversify their portfolio and invest in different fields are affected by the emerging surprises less and at the same time they can use the opportunities in the

best way. An organization that carries out activities in both the import and export field may increase its export incomes due to the fact that foreign exchange currency gains value against the currency of its own country and may have the opportunity to compete when the import incomes decrease over against a sudden devaluation. The organizations with the cash in high- level may grow and expand their marketing shares through buying the other organizations, which were in a difficulty due to the crisis, with a cost below their normal vales.

1.2. CAUSES OF BANKING CRISES

1.2.1. Dollarization and Short Position

At the present day, economy literature associates dollarization with the “currency substitution notion”. In this context, dollarization means using foreign currency as a currency, accumulation unit and a unit of account instead of own national currency in a country. Full dollarization is to accept foreign currency as an official currency in a country by leaving the national currency fully. For instance in Panama, foreign currency could be use in formal payments and in salaries. Partial dollarization is to begin selecting the financial assets in foreign currency instead of these in national currency in an effort to avoid possible loss in value of national currency in high inflation rate and uncertainty environment of a country’s economic units. On another side, partial dollarization exists undertaken one from three classical functions by foreign currency instead of national currency. According to this, the kind of dollarization that seen in Argentina, Peru, Bolivia and Turkey is partial.

Generally the first base of dollarization is developing like “asset substitution” that means beginning to use assets in foreign currency as an accumulation unit. On the other hand, the common banking crises of recent date, especially in developing countries, added “liability dollarization” concept in addition to asset dollarization to the literature of economy. Liability dollarization is to have big amount of liabilities in foreign currency by whole economic units including banking and the public sector. Both asset and liability dollarization could be qualified under a title as “financial dollarization”. Financial dollarization is described as an aim of keeping the assets and the liabilities in a foreign currency by all residents of a country.

There is always risk to experience losses for banks cause of sudden changes in foreign exchange rates. The short position of banks increase in the crisis times that

shows the bank loans in foreign currency increased. In this way, the loans of banks that obliged to pay will have been increased.

1.2.2. Fluctuations in International Interest Rates

Fluctuations in international interest rates are affecting the cost of fund in developing countries and changing the relative importance of investments. At the same time it causes fluctuations in rise of private capital movements. This inadequate sterilized capital inflow in the country has cause to raise bank deposits unnaturally and use less confidential credits as bank deposits. For example, in Southeast Asian Crisis, inadequate absorption of foreign capital inflow with open market operations provided banks to orient their loan able funds to risky investments. Completion of the widening period , instability sources start to effect financial system negatively. As a result of loss of confidence, unexpected capital flight and sudden retreat of bank deposits will cause damage to bank assets. While volatility in real exchange rates causing direct effect on banks in due time of disharmony in both exchange rate and maturity, this lead to large losses indirectly in customers who demand credit. In a number of researches, it is expressed that high variability of inflation rates will lead to fragility through increase in bank liabilities with the rise in real exchange rate and the risk of devaluation.

1.2.3. Sudden Stops in Capital Flows

As a consequence of the rise of country inflation rate, the unexpected capital flight may occur as a result of decrease in profitability and lack of confidence to the country. Sudden deposit flights is one of the most important problems that bank came across.

The theory model that searching sudden stops of capital flows in developing countries generally emphasize two hypothesizes about the breakdowns of international capital markets. First hypothesis is debtors have loan limits Second one is there is a information cost in the market as a result of lack information and debtors meet with a risk premium.

Table 1.1: Sudden Stops/Money

Sudden Stops		Money Crises	Banking crises
Mexico	1994:Q*4- 1995:Q*4	December 1994-November 1995	December 1995-December 1996 February1999-February2000
Argentina	1995:Q1- 1995:Q3 2001:Q1- 2002:Q3	March 1995 July 2001-January 2003	September 2001-August 2004
Thailand	1997:Q2- 1998:Q3	May 1997-July 1998	July 1998-January2002
Korea	1997:Q4- 1998:Q3 2001:Q1- 2001:Q3	December 1997-July 1998	July 1998-February1999 March 2004-September 2005
Turkey	1994:Q3- 1995:Q1 1998:Q3- 1999:Q3 2001:Q2- 2002:Q2	February 1994-December 1994 February 2001-October 2001	May 1994-April 1995 July 2000- February 2003

*The dates of sudden stops in capital flights are three months, the dates of money crisis and banking crises are one month period.

Source: Cemal Varlık, Sudden stops of capital flights in developing countries and macroeconomics effects, Economic and social research magazine, 2006, Bahar, cilt:3, Yıl:2, Sayı:1,3, s.83

Goldstein and Turner (1996) classified the reasons that causes banking crisis. The volatility of external and internal macroeconomic variants, increase in bank obligations according to the disharmony of rate and maturity, over gains in entrances of loan and capitals, sudden losses in asset prices, weak infrastructure practices of financial liberalization, intensive public interference and loss of control on credits, wrong exchange rate policies, weaknesses of accounting and existing deficiencies of legal infrastructure.

1.3. THE MAIN REASONS BEHIND THE BANKING CRISES

According to the literature, there are four leading causes of banking crises in emerging markets.

1.3.1. Macroeconomic Shocks

Banking structure is sensitive to lack of confidence and high rate of relative price changes. Bank loans are non-performing as a result of considering that banks know better the values of loan borrowers than any other authority. Banks typically barrow short-term and issue a loan for long-term and work low gearing groups. This feature makes the banking sector more vulnerable. Since the 1980's macroeconomic shocks has

led to adverse effects on the banks due to the fragile nature of banks. Sudden increases in interest rates punish these institutions that transfer short-term debts into long-term credit. Economic recessions have created a strong negative impact on banks. Both growth and inflation rates are often highly volatile. When Growth and inflation rates fluctuate widely, it is difficult to assess credit risk. Because of slow economic growth, exchange rate is becoming overvalued. Excessive exchange rate appreciation is also lead to an increase in credit costs. It is becoming impossible to fulfill the responsibilities for banks under these conditions.

1.3.2. Risky Activities

In recent years, banking activities has become increasingly risky. In particular loosening of legal regulations is emerging as an important factor. The extraordinary growth of derivative products is a cause of concern for the future. This issue is important particularly in two aspects: First, large and rapidly fluctuating source of a risk of derivative instruments makes difficult to control the risks for regulatory authorities. The second is the matter of credit substitution cost risk In principle, there is no credit risk in a swap operation. However in swap transactions, in case of one of the parties in default, the other part is no delivery obligation under the condition of non- delivery by one part in default. In this way, the other party can be encountered in a risk due to the replacement of swap agreement under the condition of potential reverse market. There is a concern about the costs of substitution especially for large banks. For example in 1992, %90 of replacement cost risk remained in seven banks in USD.

1.3.3. More Intense Combination

Competition has increased on two parts. First one is more intense competition has emerged among banks. Cartel-type agreements are shown less tolerance anymore; loosened restrictions on both fields of activity and geographic expansion; at the same time international and especially offshore markets has also integrated with the national markets. Restrictions on deposit interest rates have almost completely abolished. Second, the banks' dominant position in the financial sector has changed dramatically with the development of other financial institutions. While banks' balance sheets are relatively shrinking in the face of other financial institutions, banks' have dramatically expanded their off-balance sheet activities.

1.3.4. Poor Management

Banks are more at risk by the reason of lack of healthy practices in the legal framework regulating the activities of banks. In addition, the wrong practices, the illegal infrastructure of policies about bank management distort the structure of the banking sector. The disability of legal arrangements that is necessary to prevent such activities of banks has been the main factor of systematic banking crises in many cases.

Bank capital undergoes continuous degeneration by the reason of high inflation listed below;

- Inadequate legal framework in force in developing countries, accounting systems and policies of openness complicate to create a market discipline and efficiency of banking, inaccuracies in the use of derivatives market,
- The task, establishing a connection that financial markets has been undertaken between the suppliers of funds borrowed and demandants of funds, is making important to provide information related to each other between market agents,
- The risky loans that accumulated in bank balance sheets cause poor quality active structure and intense customer risk.
- Fraud or illegality in the process of the drop-down loans for managers is the constant source of risk concentration, banking problems and the banking bankruptcy.
- Triggering to take an excessive risk of poor management and regulations that allow insecure and non-prudent lending practices
- Capital adequacy of banks is Pre-condition for the soundness in the system
- Reverse regulations in application of required reserves increases the risks of banks' balance
- Deposit insurance system is extremely important
- No-allowance to exist the system for troubled banks

A crisis emerged in the banking sector affects almost every sector of society. Bank owners and shareholders who lost their shares, depositors who lost all or part of their savings are one of the sectors directly affected by the banking crisis. The ones, who depend on the banks to find funding, could be coerced. Tax payers remain under the heavy burden cause of recovery and temporary nationalization operations of the banks. When the cost of banking crises is said, the first thing comes to mind is the burden of

crisis to public finance. However, this can be interpreted as a transfer of wealth from taxpayers to bank shareholders and depositors. Such a cost include the expenses incurred like banking system restructuring expenses, payments to depositors, active management and capital support to banks.

2. BANKING CRISES AND MEASUREMENTS IN 2000s

2.1. INTRODUCTION FOR THE TURKISH ECONOMY

After "January 24, 1980 decision" with the rising marketing period, the process of increasing the general level of prices and exchange rates has gone into rapid increase trend so interest rates has remained high in Turkey. Especially in the 1990s, financing of high public deficits with debts increased interest rates and rising interest rates increased the public interest payments, finally interest payments have increased the public deficit again. In recent years, more than half of consolidated budget revenues went to pay interest, the state has become unable to invest, the speculative tendencies has increased and this affected the real economy negatively. Sometimes high profits, sometimes bankruptcies and crisis have been experienced in the financial sector that important developments have existed. "Program to reduce inflation, 2000-2002" under the name of a stabilization program has been implemented as a result of maintaining costs of this negative table in one hand, on the other hand the efforts of harmonization to European Union (EU) economic criteria and the economies of developed countries. However, completing the first year of this program in November 2000, it had a deep wound and completely collapsed in February 2001. The problems that banking sector dropped into and the exchange rate anchor which envisages the rise of basket currency (1\$+0.77 EUR) at the targeted Wholesale price index (WPI) rate has played a key role about this collapse.

Turkish Banking Sector has 75% of financial assets and has important subsidiaries in non-bank financial institutions. The number of banks was 81 in June 2000, 79 in December 2000 and then the number fell to 74 in June 2001. At the same time, the number of branches had been respectively 7687, 7838 and 7542 including the TRNC and expatriates. 56 of 74 banks in June 2000 are commercial banks and 18 of them are

development and investment banks. 27 out of 56 are private commercial banks, 17 foreign, 4 public capital and 8 are the part of the Savings Deposit Insurance Fund. This decrease occurred in parallel with a decrease in the number of the staff. Total number of employees were 173988 in December 1999, 170401 people in December 2000, and it fell 154651 in June 2001. 149169 of them are working in commercial banks, 5482 are working in investment and development banks. 60341 employees of Commercial Banks' are public, 684852 are private, 3388 are foreign-owned and 16955 are working in SDIF banks. (TBA, 2001) As we have seen, the number of public employees per bank is too much than the number of staff per number of private and foreign banks. This situation should be the indication of over-employment in public banks in one hand, on the other hand the small scale in private banks. The number of SDIF banks is constantly changing cause of the banks that merged and seized by Banking Regulation and Supervision Agency (BRSA).

2.2. THE MAIN PROBLEMS OF THE BANKING SECTOR

2.2.1. Shortage of Capital and Owners Equity

The remain is owner's equity after abstraction of the liabilities from the sum of active part in a balance sheet. Equity occurs of the value increase in paid-up capital, reserves, undistributed profits and assets (securities, real estate). The strong equity that banks have, the high resistance against the market risks. In the period 1986-2000, sector Total Equity / Total Assets ratio was 9.3% with the highest value in 1993, and the lowest value was 5.2% in 1999. Paid-in Capital / Total Assets ratio remained below 4% until 1997, and then remained in the range of 4-5%. After 1997, Paid-in Capital / Total Assets ratio increased, Total Equity / Total Assets ratio has decreased significantly. In this aspect, it can be said that the equity structure of Turkish banking sector is very weak. Sector realized the last two years with loss that Total Equity / Total Assets ratio was low.

As of December 1999, the shareholders' equity of the banking sector was 4,234 trillion TL, although a decrease of 3% in real terms in the first 11 months of 2000 and an expectation of more decrease after the economic crisis in November 2000, it reached 7,622 trillion TL at the end of 2000. Shareholders' equity increased approximately 36% in real terms, approximately 45% in dollar terms. This increase is due to the monitoring of Government Domestic Debt Instruments (GDS), which was given to the SDIF banks

in order to meet their losses, in the excess reserves account. In addition, the %32 real increase of paid-in capital has been effective in this increase in the period of December 1999-2000 (BRSA, 2001a).

Table 2.1: Some Indicators Total Assets Ratio, %

Years	Equity	Paid-in Capital	Deposit	Loan	Securities Portfolio	Profit/Loss
1986	5,6	2,2	66,0	43,3	9,6	1,7
1987	6,2	2,5	60,8	41,8	10,6	1,6
1988	7,9	2,9	58,9	37,0	10,7	2,3
1989	8,4	3,5	63,1	40,3	12,6	1,7
1990	9,1	3,6	61,0	45,0	11,0	2,2
1991	8,9	4,0	62,5	40,5	12,9	2,0
1992	9,0	3,7	59,5	39,2	11,8	2,4
1993	9,3	3,7	54,7	38,0	11,3	2,7
1994	8,9	3,6	67,8	35,6	11,7	1,9
1995	9,2	3,3	69,2	39,0	10,9	2,7
1996	8,9	3,2	72,5	40,3	16,4	2,8
1997	9,1	4,3	68,5	43,2	14,2	2,5
1998	8,7	4,3	68,5	35,0	15,5	1,9
1999	5,2	4,3	69,9	26,2	17,7	-1,0
2000	6,4	5,0	67,6	28,5	11,9	-3,3

Resource: CBT (September 2001), Electronic Data Distribution System

Paid-up capital that was the most important item of equity, has distributed between the private banks at 54.1%, public banks at 12.5%, SDIF banks at 12.3% ratio in 2000. Accordingly, the public and SDIF banks' paid-up capital totals is %24.8 of total paid-in capital. Because of the high risk in pay-back of the loans that SDIF banks gave, the 73.7% ratio of total reserves belongs to these banks (Table3).

Table 2.2: The Distribution of Equity Between Banks (% ,December 2000)

	Paid-in Capital	Excess Reserve	FARR+SRF	Retained Profit/Loss (Trillion TL)
Public	12,5	4,6	11,8	-177
Private	54,1	17,5	78,0	463
SDIF	12,3	73,7	5,4	-6315
Foreign	7,9	2,0	2,1	110
Dev. and Invest.	13,2	2,1	2,7	212
Total	100,0	100,0	100,0	-5707

Resource: (BRSA, 2001a:36)

2.2.2. Inadequate Deposits and Loans

Deposits are the liability of the banks. Total Credit / Total Assets Ratio, Total Deposits / Total Assets Ratio has remained below because of the conversion of the important part of the Turkish banks into the public papers (bond, promissory note), forecast of high inflation and high exchange rate, the course of a high level of interest rates depending on the PSBR, liquidity, reserve requirement, and deductions' of the SDIF. For example, the ratio of sector's Total Deposits / Total Assets is 60% during 1986-1993, and remained around 70% in subsequent years. Total Loans / Total Assets ratio is very low and fluctuated throughout the period. In 1990, the rate of 45% fell to 26.2% in 1999.

Sector's loan volume in 2000, especially with the increase in consumer loans, increased about 21% in real terms by the previous year. Real increase in TL loans has been 38% and it has been 1.6% in foreign currency loans. The total cash loans to total assets ratio was 28% in 1999, and it increased to 31% in 2000. In 1998, the share of medium-and long-term loans in total loan was %21 and it rose up to %26 in 1999, and was 32% in 2000. The lending trend of private banks has been higher than the foreign banks. (BRSA, 2001)

In recent years, the plenty of high-yielding government securities in the market have taken banks away from the banking traditional activities and have made the state funds.

Opened a private initiative, especially medium-and long-term loans decreased, harmonization of the terms of repayment of loans and the payback period of investments has been corrupted.

In addition, although the Central Bank has removed the ease of the medium-term accruals at the end of 1989, has not found a new solution to meet these needs. 1978-1995 period, if Turkey's annual average Gross National Savings / GDP ratio in OECD and just European Union (EU) countries watched as about 20% is taken into consideration (OECD, 1998), it is understood that the deficiency of deposit in Turkey is not about the low level of average saving trend, is due to the low level of national income. Indeed, 20% of 2500 \$ per capita income is 6000 dollars. Accordingly, savings should be boosted to increase deposits and loans, the national income should be increased to boost the savings in Turkey.

2.2.3. Fewer Large Scale Banks versus to Many Small Banks in the Sector

When the number of banks and the assets, loans, deposits and equities belongs to these banks are taken into account, it is understood that there is a dual structure (The presence of few large and many small banks) prevents the emergence of effective competition in the sector. For example, in December 2000, although the total number of banks is 79, 4 public banks (Ziraat, Halk, Vakıflar, Emlak) and the first five major private banks (İş, Akbank, Garanti, Yapı Kredi, Pamukbank) has held the 66.7% of the total assets, 94.6% of shareholders' equity, 70.6% of deposits and 69% of loans. The remaining portions of these values (33.3% in assets, 5.4% in shareholders' equity, 29.4% in deposits and 31% in loans) were shared between other 70 small banks (TBB, 2001, Table 4).

Table 2.3: Division of Assets Between Banks

	Asset	Equity	Deposit	Loan
Public Banks	34,2	14,4	39,9	27,5
Private Banks	46,2	88,3	44,2	55,9
-Top Five	32,5	80,2	30,7	41,5
-Other	13,7	8,1	13,5	14,4
Foreign Banks	6,6	9,3	2,5	3,5
SDIF Banks	8,5	-26,9	13,4	6,7
Total	100,0	100,0	100,0	100,0

Resource: (BRSA, 2001 a: 27)

The control of constructiveness of market sector is in the first five major state-owned banks and private banks, openness of public banks to the government intervention and the disadvantages of small banks prevent the emergence of effective competition in the sector. Instead of this , if the number of private large banks is not 5 but is 15, perhaps there may be a more effective competition and the banking sector could have been stronger and more effective than it is today.

Through stocks of medium and small sized banks are collected by one or a couple of family, decisions usually reflect their desires. These banks have inadequate resources and their financial strength is weak. They have less chance to find diversified staff in order to perform the appropriate management. They are lack of capacity utilization and

their technical equipment is poor. They cannot do enough R&D activities, and cannot pick up the necessary information and process them. Division of labor and specialization are missing. Management and control functions are generally collected by the same personnel. They have limited number of branch offices, less customers and diversity of services, poor risk distributions. They cannot show enough resistance against fluctuations. They are obliged to accept the terms of market conditions set by large banks. They cannot benefit sufficiently from the equipment purchases regularity and the conditions such as price reduction and price stability. They shall not engage in some highly profitable businesses because of the weak capabilities of risk taking, more effective advertising and also providing employment security. They have less resistance to shape the policies of state towards the sector and the forces of them. (Parasız, 2000)

In addition, after 1980, interest rates began to increase rapidly, holdings have chosen the way of establishing their own banks in order to find funds at the appropriate interest rate for their subsidiaries. However, the banks seized by the SDIF and the status of İhlas Finans bankruptcy showed that a significant risk for the system as causing an abuse in the use of funds and at the time of reimbursement. Of course, it may be possible to overcome the problem with legal regulation and effective supervision.

2.2.4. Domination and High-Duty Losses of State Banks

In 1980 and 1990, the share of public banks in total assets of the banking sector is approximately 45%, although it declined to 34.2% in December 2000, when the share 8.5% of SDIF banks added, this rate rose up to 42.7%.

In December 2000, public banks have collected 39.9% of the total deposits, and has performed% 25.7 of total loans. The share of private banks in total assets was 46.2% , the share of foreign banks' was 6.6%, and the share of investment and development banks was 4.4% . (CBT and Table 3) This situation shows that a significant concentration in the banking sector in favor of state-owned banks in terms of total assets.

With the join of SDIF banks, state banks' share of total deposits rise up to 53.3% and the total share in loans comes to 34.2%. The share of own funds of public banks is quite low (14.4%), of SDIF banks is negative (-26.9%). As a result of savings deposits are guaranteed by the state, when the permission is denied for bankruptcy of banks and banks is included by TMSF, the costs incurred by state has increased. (Table 3)

Although the main purpose of the private banks is profit maximization, there are other purposes; for instance profitability, development of the sector, money supply control, other objectives of the strategic sectors, such as provision of cheap credit. Therefore, these banks, except for commercial purposes, often to fulfill the obligations of public service, undertake the extra costs that the private banks don't bear and do the jobs are not rational in terms of profit-making banks.

On the other hand the incentives of employees in public sector are weaker than the private sector in terms of cost reduction, productive work and innovation. The reasons for this; civil service rules, the legal limitations for the additional payments, and factors such as the complexity of the government objectives. Managers of state-owned banks often do not receive share of the profits when the banks make profit, and can't be a reduction on their salaries when they make loss. Public banks do not go bankrupt, the assets of them do not distain and they are supported with public facilities; job security provided to employees, the promotion formalities of managers are made by politicians or operations regulated by law; managers take into account the tendency of politicians to decide. Link with the politician, on the one hand reduces the flexibility of movement of public banks' managers, on the other hand creates a suitable area to escape responsibility.

Governments tend to apply more public resources to finance the populist policies they are trying to pursue especially during election periods. Why do the public banks make loss of \$ 25 billion in Turkey? How much of this consists of the loans actually passed into the hands of manufacturer and do not return? To find real answers of these is really difficult in the world that the things intruded legal sheath.

2.2.5. Currency Substitution and Increase of Short Position

If liabilities are more than active assets denominated in foreign currency (FC), this situation is defined as short position. Granting permission to open foreign currency accounts of Banks in 1984 and in 1989, the decision No. 32 issued liberalization of international capital movements accelerated the process of currency substitution in Turkey and Foreign Exchange Deposits increased. For example, in 1986, Deposits / Total Deposits ratio was 73.9% and it gradually decreased to 43.9% in 1995, and then remained approximately around 47%. Likewise in 1986, the rate of Term Deposits / Total Deposits was 46% and the rate floating decreased to 30.5% in 1993, and then

remained at 30s%. However, in 1986, the domestic residents' FX deposits / Total Deposits rate was 14.6% and was up to 46.7% rate in 1994, and then remained around 40% in subsequent years. In 1986, Residents' FC Deposits / GNP ratio was 4.5%, in 1999 it was up to 22.6% . While, Total Deposits / GDP ratio significantly increased towards the end of the period of 1986-2000, total credit / GDP ratio remained small and grew more slowly because of the transformation of an important part of deposits to the public papers (bond, promissory note) (Table 2.4.).

Table 2.4: Rates of deposits (%)

	Rates to Total Deposits			Rates to GDP		
	Residents' FX Deposit	Total TL Deposit	Term TL Deposit	Total Deposit	Total Loan	Residents' FX Deposit
1986	14,6	73,9	46,0	30,5	20,0	4,5
1987	21,9	68,8	39,1	31,9	21,9	7,0
1988	23,6	67,2	42,8	29,4	18,5	7,0
1989	21,8	71,3	46,8	26,8	17,1	5,8
1990	22,4	70,1	44,5	23,7	17,4	5,3
1991	30,3	64,5	44,1	26,0	16,8	7,9
1992	34,2	58,2	39,0	26,8	17,7	9,2
1993	35,7	48,1	30,5	26,2	18,2	9,4
1994	46,7	46,8	34,1	30,9	16,2	14,5
1995	45,0	43,9	34,6	32,4	18,2	14,6
1996	41,0	47,7	34,8	39,2	21,8	16,1
1997	40,9	45,2	34,6	40,7	25,7	16,6
1998	37,7	47,6	39,3	42,8	21,9	16,1
1999	39,1	47,9	39,6	57,9	21,7	22,6
2000	37,9	47,2	37,5	51,6	21,7	19,6

Resource: Central Bank (September 2001), Electronic Data Distribution System

Banks, as a result of low rate-high interest rate policy implemented in the 1990s (except 1994 crisis), obtained significant profits by converting a portion of resources in terms of FX (for example, 15.4% in 1993) to TL-denominated loans. Before the 1994 crisis, the banks that didn't close open positions have seen big losses as a result of rapidly increases on the foreign currency exchange rates in the crises. The same situation occurred in February 2001 crisis.

When analyzed the composition of total liabilities in the sector in terms of TL-FC, the weight of TL was 52% in 1998 and 1999, and decreased to 49% in November 2000 with the effect of exchange rate policy followed. As a result of the effects of November crises and the efforts to close open positions of banks, the share of TL again

started to increase and rose up to %53 at the end of 2000. Although £ 80% of state-owned banks' liabilities were TL at the end of 2000, the rates FX / Total Liabilities was 68% of FC in private banks, 55% of FC in development and investment banks and was 64% of FC in SDIF banks. (BRSA, 2001)

The weight of TL in sector's total assets was 64.7% at the end of 2000. This rate is 81% in public banks, 66% in the SDIF banks, 55.2% in private banks, 51.9% in foreign banks, 50.9% in development and investment banks. TL is used mainly in public and SDIF Banks, specialized loans is used heavily in public banks are the result of loss-written in TL of duty loss receivables from the Treasury and the proceeding foreign currency loans of SDIF banks. However, in 2000, the weight of the SDIF banks' asset TL decreased as compared to the previous year. The reason of this; \$ 3150 million in foreign exchange and 3000 million dollars in TL and totally 6,150 million dollars special issue government bonds has been given to these banks. (BRSA, 2001).

The applicable foreign currency exchange rate anchor under the "program to debate inflation, 2000-2002" has made take on debt attractive in foreign currency and the syndicated loans banks borrowed from abroad has increased. Banks 'open positions and exchange rate risks have increased because they converted their resources to loans in TL that obtained in FC and buy government securities relying on anchor currency policy. Many banks, in open position had to loan at high interest rates (interest risk) in November 2000 crisis, and borrowed foreign currency at high exchange rate(currency risk),with the replacement of floating rate, in February 2001 crisis, and had carried high costs in both cases.

In March 2001, foreign exchange open position except futures fell to \$ 12.2 billion; the sector was \$ 18.2 billion In September 2000. During the same period, excluding SDIF banks and including the open futures, short position decreased to \$ 479 million from \$ 874 million. An important part of the open foreign exchange position of the banking system is the result of the SDIF banks. Short position of public banks has been fewer. In March 2001, private banks 'foreign currency open positions, excluding futures, were \$ 6.2 billion and fell to \$ 429 million as including the futures. (Table 2.5.)

Table 2.5: Banks' Net Foreign Exchange Positions (Million Dollar)

	1/2000		9/2000		3/2001	
	(a)	(b)	(a)	(b)	(a)	(b)
Public	-177	-191	-1	19	-66	-25
Private	-6061	-773	-9637	-847	-6185	-429
SDIF	-5345	-2684	-6271	1362	-4552	-4670
Foreign	-1201	-60	-2112	-78	-1131	4
Dev. and Invest.	-2	91	-168	200	-226	-29
Total (SDIF included)	-12786	-3617	-18189	-5783	-12160	-5149
Total (SDIF excluded)	-7441	-933	-11918	-874	-7608	-479

Resource: (BRSA, 2001b:8) (a) Futures excluded (b) Futures included (is based on legal restrictions)

Foreign currency assets of balance sheet, taken into account to calculate the standard ratio of net general position, are 63122 million dollars as of December 2000 and foreign currency liabilities of the balance sheet are 811,111 million \$. The deficit of balance sheet position is 17,989 including SDIF, is 13,675 million dollars excluding SDIF. As of the same date, when added 3436 million dollars- indexed position surplus to the position deficit of on-balance-sheet, the position deficit of the sector declined to \$ 14,553 million. During this period, purchase commitments of foreign exchange are 38,085 million dollars, trading commitments of foreign currency are \$ 28,976 million and position surplus of net FX futures operations is \$ 9108 million dollars. In December 2000, net deficit position of public sector was \$ 5,444 million. The rate FX net general position / Capital Base was %48 and has exceeded the legal limit of 20%. When excluding the SDIF banks, the general net deficit declined to 1,414 million dollars, the rate of position deficit to capital base decreased to 12%. (Table 2.6)

Table 2.6: Balance Sheet FX Position

	1/2000	11/2000	12/2000	January-December (%)
YP Aktives	54 115	59 484	63 122	16,6
YP Pasives	68 482	81 019	81 111	18,5
Net YP (SDIF included)	-14 367	-21 535	-17 989	25,2
Net YP (SDIF EXcluded)	-8 553	-15 780	-13 675	60,0

Resource: (BRSA, 2001a: 42)

2.2.6. Lack of Controls

Control means control of doing business as it should or not. Control is not a static process such as only an audit review at the end of the business; it is a dynamic process including feedback like finding errors at each stages of the work and eliminating these errors. In this way, the audit systems that unchecked or missing control, lose their effectiveness over time. For example, at what stage the error occurred cannot be understood without supervision in a company engaged in defect production. Understand the error after production does not mean anything. Therefore, an effective audit should not have a chance to erroneous behavior that may arise at each stage of the banking activities. If this is achieved, the percentage of banks' risk, corruption and the crisis is significantly reduced, long-term economic stability and efficiency increases.

High duty losses of public banks and confiscation of private banks from the BRSA, show that a serious lack of control in this sector. Application of generally accepted accounting principles and unchecked financial statements makes transparency of financial statements suspicious that published in the sector. So, sometimes the financial statements that published by banks and external audit has important differences.

For an active control in the sector ,creation of the database required for audit, the information, technical equipment and the number of control elements should be sufficient, and elimination of legal and political barriers that creates ineffective control then finally penalties for corruption should be a deterrent. An ineffective control environment reduces the deterrent penalties and code of ethics, corruption spreads more quickly. \$25 billion duty losses of state banks ,and as much loss of SDIF banks, recently the increasing corruption of many operations to be associated with banks, some of the SDIF banks' previous owners and managers have tried for alleged corruption show that a significant lack of control in this sector.

2.2.7. State-Source Issues

The certain State-Source Problems: (1) entrepreneurship debilitating political instability and coalition governments, (2) errors in the legal and institutional arrangements, (3) long term state assurance of savings deposits (4) domestic borrowing from banks predominantly, (5) incorrect exchange rate anchor policy, and (6) tendencies of making government policies to populist policy financing tool. We will focus on first two in this subject.

The ideological form cliques have increased in the late 1960s and 1970s in Turkey. After the coup May 27, 1960, generally incompatible, and short-lived coalition governments has been established. 7 of 13 established in the last 40 years the coalition government was established in the last 10 years. Even though the political parties that polled less than 10% of total vote, couldn't enter the parliament, avoid strong government and public interventions to political area reduced economic activity and political ties between politicians and governments. Weak governments that prevent entrepreneurs to make health prediction for future have negative impact on real investment in long-term and banking sector.

2.3. ROLE OF THE SECTOR IN NOVEMBER AND FEBRUARY 2000 CRISES

Banking sector has a strategic importance in economy. Because; in case of a possible bankruptcy, depositors, the ones using credits and other banks are affected from this negatively. The ones who have deposit money in other banks may think that their own banks will have the similar problem and they may want to withdraw their deposit money. The banks that cannot meet these demands of the depositors may go bankrupt due to domino effect one after another. When the banks that have difficulty in paying try to encash their receivables when it is undue and sell their assets below its value, a problem starting in financial section may take hold of the reel part.

In Turkey, “ 2000-2012, program of decreasing the inflation” that had the aim of saving Turkey from the high inflation having continued for a quarter-century and helping Turkey to restore its economy to a consistent structure, got a deep wound in November 2000, without completing its first year and ,n February 2001, it declined completely. In the first, overnight repurchase deposit interest has declined to % 1500, in the second, to % 7000; Istanbul Stock Exchange 100 index declined to 7000 from 17000 in the first; in the second, from 11000 to 7000. 4 billion dollars sold in exchange for 3 quadrillion TL that was transferred to some banks wasn't enough to reduce the temperature of the market. Foreign exchange reserve of the CBT (Central Bank of Turkey) was 27,9 billion dollar in 16th February and it reduced 5,2 billion dollar and it declined to 22,3 billion dollar in 23rd February. Dollar currency was 1 \$ =686500TL in 19th February and it rose to 920000TL in 23rd February. While the basket currency determined as 1 \$+0,77 EURO within the framework of the applied program was

estimated to increase in TEFE rate aimed till July 2001 (fixed currency policy), it was obliged to leave this policy in 21st February 2001 and pass to floating rate.

Following 2000 crises, banking sector faced with interest risk; after February crisis, it faced with both interest and currency risk. Central Bank Governor and Advisor to Treasury, State Minister in charge of the economy and IMF representative who are the architects and executives of the decisions of 9 December 1999 had to resign. Under the leadership of new state minister in charge of the economy, Kemal Derviş, a new program was made applicable under the name of “Turkey’s transition to the strong economy program”.

The connection between the banking sector and the experienced crises were enabled through:

- 1- Long-term continuation of state guarantee on the saving deposits
- 2- The fact that domestic debts are mainly from the banks
- 3- Wrong fixed exchange rate policy
- 4- The fact that public banks have become the financial instrument of the populist policies of the governments.

Due to the continuation (In December 2000,foreign-sourced deposit money was included within the guarantee) of the state guarantee on the saving deposits in the following years to prevent the possible mass decline in the banking sector within the framework of the 5th April 1994 stability program, banks moved away from the supervision of the account savers, in the fund use, risk factor wasn’t taken into consideration in detail, moral hazard emerged, the number of bank and branch offices increased so fast and optimal scale was moved away, fund sources of the private sector was narrowed, interest rates increased and this affected private investments negatively, the governments that find possibility of barrowing from the banks continued their extravagancy and public deficits. In this period, some persons who don’t know their stuff have become a banker since they consider it as a way of an organic connection to the state. Some banks (Egebank,Interbank, Yurtbank, Etibank, Türkbank, Sümerbank, Bankkaptial) seized by BDDK are put on trial due to the claim their previous owners vacated their own banks in a planned way. The owner of Iktisat bank thanked to the system for the fact that the government undertook the fine of his own inability when his banks was seized.

The more KKBG increased, the more the government had to become indebted; as foreign borrowing decreased, domestic borrowing increased. The increase in domestic borrowing increased the interest rates and in terms of banks, lending to the government has become low- risk and high- profit. The domestic debt made from the banks in 1987-1999 period varied as between %72-93 of the total domestic debt. The lowest value was % 72 in 1994, the highest value was %93 in 1991 (HM, 2000). The share of the deposit banks of DIBS within the total assets was %10 in 1990 and it increased to %23 I 1999. In the same period, the share of the total credits for the private sectors within the total assets had declined to %24 from %36 (Derviş, 2001).

In 1992-1999 period ;while, annual average of Gross National Product growth rate was below %4, real interest rate in domestic debt have become %32. High real interest payments increased KKBG and vicious cycle of debt- interest-debt emerged, which got harder and harder each day and maintenance of it was impossible. In addition, the fact that the government has been the payer of net foreign debt since 1994 and accomplishment of the debt with lower interest than the market in 2000 became suppression on the domestic financial markets that are not deep enough.

Ranking of Government Debt Securities/Total Assets from the highest to the lowest was : Saving Deposits Insurance Fund (SDIF) , foreign, public(private in December 1999), private, development and investment banks. This rate is both enormous and it is getting increased in SDIF banks. The fast increase in this rate in December 2000 was resulted from the fact that Government Debt Securities were given to the banks by the Treasury in return for their losses. Although Government Debt Securities/ Total Assets of the foreign banks were big, it has decreased (Table 2.6). Within the framework of the applied program, in 2000, interest rates declined; the government got the chance to become indebted with lower with low cost, it bought Government Debt Securities; the income of the banks getting high profits decreased and their financial structure was collapsed. These banks suffered as they put all the eggs in the same basket. In the last months of 2000, with the effect of liquidity shortage, interest rates started to increase and the banks with open positions had to find a source with high cost. The sector that made 57 trillion TL profit in September 2000, it closed this year with 2724 trillion losses due to November 2000 crisis. The loss of SDIF banks was 2547 trillion TL in December 1999 and it rose to 3310 trillion TL in December 2000. Except for SDIF

banks, the sector profit which was 2241 trillion TL in December in 1999 declined as %74 and it declined to 568 trillion TL in December 2000 (Table 2.7)

Table 2.7: Government Debts Securities /Total Assets Rates of the Banks, (%)

Banks	12/1999	9/2000	12/2000
Public	17,8	22,4	22,3
Private	26,5	20,3	20,0
Foreign	36,2	34,8	29,8
SDIF	55,4	60,7	90,5
Development and Investment	6,9	10,1	8,4
Total	26,2	25,1	26,9

Source: (BRSA, 2001b:9)

Table 2.8: Net Profit / Losses of the Banks (Trillion TL)

	12/1999 (1)	9/2000 (2)	12/2000 (3)	% Change (3)(1)
Public	284	48	-177	-162,4
Private	1485	1267	482	-67,6
Foreign	278	135	66	-76,3
Development and Investment	194	170	215	10,7
SDIF	-2547	-1563	-3310	30,0
Total (Including SDIF)	-306	57	-2724	791,0
Total (Excluding SDIF)	2241	1620	586	-74,0

Source: (BRSA, 2001a: 38)

Indeed, if the government could have transformed the equities that it got with the domestic debt into investment, their usage by the private and public sector would not have been a problem. The government couldn't use the sources it got with high cost rationally; it resorted to pay the capital and interest of these sources and another debt that is due; or it resorted to use financial help with the low interest, subsidies and the incentives. To what extent financial help, subsidies and incentives were used in accordance with its purpose must be discussed upon.

It was estimated that the basket currency determined as 1\$ +0.77 EURO within the framework of "2000-2002 Program of Decreasing the Inflation" shall increase in the

rate of TEFE increase aimed till July 2011 (fixed exchange rate). However, despite the fact that the aimed TEFE increase for 2000 was % 20, the realized TEFE increase was %37,2 and it gained value against TL,YP. Depending on the fixed exchange rate policy, many banks increased their foreign debts through syndication credits. Banks purchased bills and bonds with the sources they got through this way and gave credits to the market. However, the profit of both the Government Debts Securities they purchased and the credits they gave to the market was lower than the past and the banks used their previous profits.

As the foreign debt increased, monetary base increased, it gained value against TL, YP. Since the fact that sterilization will not be done as a part of the program has been confirmed, nominal and real interest rates decreased, consumer credits increased approximately in % 30 rate. Export coverage ratio of import has decreased; the current deficit which was only 1,4 billion dollar in 1999 rose to 9,8 billion dollar in 2000. This situation decreased the dependence on TL and oriented the public and institutions towards the dollar replacement. Following November 2000 crisis, the fact that the shortening of the terms (due dates) while interest rates are increasing so fast has destroyed the financial structures of the public banks that suffer from the liquidity shortage and the banks as part of SDIF.

When Stock of Short-term Net Foreign Debt /Central Bank Foreign Exchange Reserve, M2Y /Central Bank Foreign Exchange Reserve and Current Accounts Deficit /Central Bank Foreign Exchange Reserve are examined, it is not difficult to estimate the crises in Turkey. Before the crisis, Stock of Short-term Net Foreign Debt/Central Bank Foreign Exchange Reserve was % 260 in Mexico; before Asian crisis, it was %170 in Indonesia, % 150 in Thailand, %90 in Philippines and %60 in Malaysia. In Turkey, after 1989 it did not drop below %100, in June 2000 it became %112, in December 2000, it became %140. Before the crisis, M2Y /Central Bank Foreign Exchange Reserve Rate was 6,5 in Mexico; 3, 9 in Malaysia; 6,1 in South Korea and Indonesia; over 4 in Turkey. Current Accounts Deficit/ Central Bank Foreign Exchange Reserve rate which was % 5,9 in the end of 1999 became %28 in June 2000; it became %49,7 at the end of the year (Boratav vd., 2001)

Booming of the interest rates at the end of 2000 both reduced the market value of the securities portfolio of the banks and brought up the costs arising from the open position

to the unbelievable dimensions with the booming in the foreign exchange currencies. Public and SDIF banks whose short-term fund demand is high had the most enormous damage. For example, when the administration of Demirbank that has a considerable extent of public paper couldn't overcome the liquidity shortage by borrowing or buying its public papers, SDIF took hold of this bank. When the dram of Demirbank directed other banks to close their foreign exchange open provisions, the demand of foreign exchange increased and so there wasn't a possibility of maintaining the fixed currency policy.

According to Ercan Uygur (2001), values of financial pressure index (FBE) calculated with the data in the period of June 1999-December 2000 give meaningful results about Kasım crisis. In this analysis, in the event that $FBE^{(t)} \geq \mu + 1,5\sigma$ is, it is accepted that there is a financial crisis. On the condition that $\mu=0$ and $\sigma=1$, 94 is, the condition of $FBE^{(t)} \geq \mu + 1,5\sigma$ was realized since FBE was 5, 40 and 9, 93 in the last two weeks of November.

The government was burdened with debts, totally 43, 7 quadrillion TL; that is, 22 quadrillion TL till the end of 2000, 21, 7 quadrillion TL till 14th May in 2001 with the aim of strengthening the capitals of SDIF banks and closing the service losses of the public banks. 25, 8 quadrillion TL of this amount was composed of the service losses of the public banks; 16, 3 quadrillion TL was composed of the losses of SDIF banks; 1, 6 quadrillion TL was composed of private disposal bonds given to the capital of Halk and Emlak banks on account (HM, 2000)

As a result of the fact that the banks have lost their role of being a medium between the saver and investor especially in the last years and they have become the medium of transferring the funds of the private sector to the government and the fact that equity capitals are weak, sector could not resist against the crises of November 2000 and February 2001. Despite this, the fact that Debt / Equity Capital Rate of the sector is tinier than the similar economies having crisis, credit increase is limited and the fact that saving deposits are under state guarantee increased the power of the sector in overcoming the crisis. In 1999-2000, while Debt/ Equity Capital was %400 in South Korea, %150-200 in Indonesia, Malaysia and Philippines, and %83 in Mexico, in Turkey, at the end of September 2000, it was approximately %40. The limited increase in the bank credits protected the system against the risk of not returning. The fact that

saving deposits are under state guarantee prevented the saving deposits owners from invading, flowing in to banks (J.P.Morgan, 2001).

2.4. MEASUREMENTS FOR RE-STRUCTURING THE SECTOR

A range of precautions were taken to make the financial system consistency, to prevent public and SDIF banks from being a inconsistency factor, to reduce the costs that the government was burdened with from these banks and enable the private banks have healthier structure. These will be examined as common precautions, the precautions related with the public banks, the precautions related with SDIF banks and precautions related with the private banks.

2.4.1. Common Measurements

With the 4389 numbered Banking Law that became valid in 18 June 1999, regulation, supervision and inspection of the sector were given to BDDK established in an autonomous status. With 19 December 1999 dated, 4491 numbered law, all the decisions that should be taken in the process, from the establishment of the banks to the liquidation of them, were released to this institution. BDDK started to work efficaciously in 31st August in 2000. The purpose of the institution is to adjust the regulation, supervision and inspection system of banking to the international criterion and AB norms, to strengthen the financial structures of the banks, to prevent abusing, to create the suitable atmosphere for the sector to function in the competitive structure within the market discipline and healthy, effective and world scale and contribute to the long-term economic growth and consistency of the country.

Within this context, as foreseen in 4389 numbered law, in February 2001, “regulations about the domestic inspection and risk administration systems” and “regulations about measuring and evaluating the proficiency of the capital of the banks” were made. In parallel to the definition of equity capital in AB directives, the definition of “ consolidated equity capital” was made and in the calculation of the credit limits which will be applied according to the consolidated base and standard rates, this definition was enabled to be based on. A transition period was provided till 2009, the shareholding of the banks within the partnership apart from the financial institutions was limited with maximum % 15 of their equity capitals and the total amount of these shareholdings were limited with %60 of the equity capitals. Future deliveries, option

agreements and other similar equivalent processes were included within the definition of credit. In order to speed up the transfer and union of the banks, with the 6762 numbered Turkish Trade Act, in the unions and transfers, it was decided that on the condition the shares of total assets of the mentioned banks in the transfer and unions don't exceed % 20 within the sector, some items of the 4054 numbered Law on the Protection of Competition will not be applied (BRSA, 2001b)

To enable the transparency in the financial tables of the banks and for the accounting of the processes in an appropriate way with the quality Enacting of Accounting Governing Regulations (MUY) which will become valid 1st January 2002, the aim was to adopt the main principles of the international accounting standards including the 39 numbered standard that contains the elements including the repurchase agreements within the scope of balance sheet with this regulation, evaluation, classification of the financial instruments and protection of them against the risk.

With the approach of risk group, for the purpose of preventing the risk condensation, reinforcing the active structure of the banks according to the principles of security, liquidity and efficiency, it was requested that in the accounts of the credit limits to be used by a group, direct and indirect credits should be taken into consideration together, the same sensitivity should be displayed while sources of the banks are used by the stockholders and shareholders.

To re-arrange the activity and establishment principles of the independent inspection institutions, to open the internal check and risk management systems and credit portfolio and market risks to the external auditing, regulate the agreements made with the auditing units of the other countries and the off-shore banks established by the banks or dominant partners with the enabled partnership, to view the foreign branch offices, to observe the behaviors of the banks and take the necessary precautions on time, it was intended that BDDK and TCMB would be in a cooperation and to overcome the liquidity problem, it was aimed that there would be a coordination among BDDK, HM and TCMB.

2.4.2. Measurements Related with the Public Banks

Three public banks (Ziraat, Halk and Emlak) were given to the administration of collective governing body. Emlak Bank was transferred to Ziraat Bank in 9th July 2001 and the capital proficiencies of the banks were increased. Privatization processes of

Vakıflar Bank are continuing. To reinforce the capitals and to meet the foreign exchange deficits, Public and SDIF banks were given, totally 25852 trillion TL Government Debt Securities (DIBS); 141148 Trillion TL to Ziraat Bank till May 2001; 11659 to Halk Bank and 45 trillion TL to Emlak bank was given.

Table 2.9: Government Debt Securities Given to the Public Banks in return for Service Losses (Trillion TL)

	Ziraat	Halk	Emlak	Total
End of 2000	2.034	863	-	2897
January 2001	2.333	2167	-	4500
February	-	1000	-	1000
March	550	1750	-	2300
April	4.500	1750	-	6250
May	4.730	4130	45	8905
2001 Total (January- May)	12.113	10797	45	22955
General Total	14.148	11659	45	25852

Source: (BRSA, 2001b:14)

750 million dollars in 3/1/2001 were exchanged into TL from Government Debt Securities (DIBS) currency in return for the Government Debt Securities (DIBS) they got via this way, the Public Banks lessened their responsibilities for the other banks and the sector except for the banks by making a repurchase agreement from TCMB (Turkish Republic Central Bank) or purchasing them and providing liquidity.⁹⁷ enactments that have been enacted from 1984 were abolished. The bill drafting for the abolishing of the service losses resulting from the laws was forwarded to the Prime Ministry. From now on, if necessary, the required sources for the support that will be provided via the public banks will be transferred to these banks previously. With this purpose, the subsidy whose amount is 400 Trillion dollars was put in the 2001 Budget. (HM, 2001)

On the other hand, with the 4651 numbered law, which was published in 5th May 2001 and made a change in TCMB (Turkish Republic Central Bank) Law; the increasing of the independency of the TCMB, the fact that the main aim of the bank is to enable the price stability and if it doesn't contradict with this target, the government's supporting the growth and employment policy, the fact that it has the

common authorization in determining the inflation target with the government and the fact that Central Bank Monetary Policy Committee were decided upon. TCMB will control the growth rate of the net domestic assets and will interfere with the foreign exchange market only to moderate the temporary fluctuations; in case of unexpected and serious fluctuations, it will benefit from the foreign finance facilities and interest rates which will be used within the framework of the program in order to stabilize the money and foreign exchange markets.

2.4.3. Measurements Related with the SDIF Banks

Since 6th November 1977, 18 banks were transferred to SDIF. Among this, Egebank, Yurtbank, Yaşarbank, Bank Kapital and Ulusal Bank were joint with Sümerbank and joint Sümerbank was sold to Oyak Group in 10th August 2001. Interbank and Esbank were united with Etibank and in 22nd of August 2001; Koç Holding was give the permission to audit the united Etibank. Sales and transfer negotiations of Demirbank to HSBC are going on. The auditing of İktisat Bank by UniCredito Italiano Spa and the auditing of Sitebank by Novabank S.A. is going on. The decision about Tarişbank, Bayındırbank, Kentbank and EGS Bank will be made at the end of the year. According to this, SDIF has still 8 banks. These are Etibank, Demirbank, İktisat Bank, Sitebank, TArışbank, Bayındırbank, Kentbank and EGS bank. The sold banks were under the control of SDIF for approximately 539 days (Table 2.10; BRSA, 2001c)

Table 2.10: Information about SDIF Banks

Banks	Date of Transfer to the Fund	Current Situation
T.Tic. Bank	6 th November 1997	In 1 st July 2001, the banking license was cancelled.
Bank Express	12 th December 1998	Sold to Tekfen Grup in 30 th June 2001. The name was changed to EuroBank Tekfen in 2008.
Interbank	7 th January 1999	United with Etibank in 15 th June 2001. Then it was taken under Bayındırbank.
Egebank	22 nd December 1999	United with Sümerbank in 26 th January 2001. Then it was acquired by Oyak Holding and then this bank was combined with Oyakbank in 2002.
Yurtbank	22 nd December 1999	United with Sümerbank in 26 th January 2001. It was combined with Oyakbank in 2002.
Yaşarbank	22 nd December 1999	United with Sümerbank in 26 th January 2001. It was combined with Oyakbank in 2002.
Sümerbank	22 nd December 1999	Sold to Oyak Group in 10 th August 2001.
Esbank	22 nd December 1999	United with Etibank in 15 th June 2001. Then it was taken under Bayındırbank.
Etibank	27 th October 2000	Koç Holding was given the permission of auditing in 22 th August 2001. Then it was taken under Bayındırbank.
Bank Kapital	27 th October 2000	United with Sümerbank in 26 th January 2001. It was combined with Oyakbank in 2002.
Demirbank	6 th December 2000	Negotiations of sales and transfer to HSBC was resulted in 20 th September 2001.
Ulusal Bank	27 th February 2001	United with Sümerbank in 17 th April 2001. It was combined with Oyakbank in 2002.
İktisat Bank	15 th March 2001	The banking license was cancelled.
Sitebank	9 th June 2001	Novabank was given the auditing permission in 22 nd August 2001. Novabank purchased the bank and they operated with a new name "Bank Europa". Further the name was changed to Millenium Bank Turkey. Eventually this Bank was acquired by a famous financial group "FIBA group" and the name of the new bank is now "Fibabank"
Tarişbank	9 th June 2001	The banking license was cancelled.
Bayındırbank	9 th June 2001	The assets and liabilities of all cancelled banks were merged under this bank. Further the name of the bank was changed to "Bank of the United Fund".
Kentbank	9 th June 2001	Its banking license was cancelled. However the owners took the case to court and the court decided to return the bank to the owners. They have not taken any further action so far.
EGS bank	9 th June 2001	Their banking license was cancelled.

Source: (BRSA, 2001c)

HM took upon the risk itself by closing the open positions of the SDIF banks with the export of Government Debt Securities (DIBS). Within this scope, totally 20, 3 billion

dollar (17708 Trillion TL) equity was transferred to SDIF banks on the basis of currency in the date of issue. (Table 2.11)

Table 2.11: Equities Transferred to the SDIF banks

	Trillion TL	Million \$ ⁽²⁾
Bond given to the account of the loss		
-In foreign currency	7010 ⁽¹⁾	7011
-In TL	8529	8869
-Done deposit money	0	0
From the sources of funds	684	1626
TCMB (Turkish Republic Central Bank) advance loan in return for the bond in foreign currency	750	996
Cash from the sources of funds	735	1760
Total	17708	20262

Source: (BDDK, 2001b:14). ⁽¹⁾ In the currency of the date of issue, it was exchanged into TL, ⁽²⁾ In the currency of the date, it was exchanged into dollar.

In the transfer date, the number of the branch offices of SDIF banks was 1454, it was reduced in the rate of %27; it was reduced to 1059 in 31st July 2001; the number of the personnel which was 30087 was reduced in the rate of %35, it was reduced to 19485 (Table 2.12)

Table 2.12: The number of Branch Offices and Personnel of the SDIF Banks

	Number of Branch Offices		Number of the Personnel	
	Transfer Date	31.07.2001	Transfer Date	31.07.2001
Demirbank	198	199	4 241	3 724
Etibank	283	210	6 171	4 156
İktisat Bank	62	62	1 305	1235
Tariş Bank	41	41	528	528
Sitebank	13	13	253	251
Bayındırbank	22	20	381	384
Kentbank	86	86	1 422	1405
EGS Bank	49	49	918	907
T.Ticaret Bank	274	218	4 790	3 082
Sümerbank ⁽²⁾	401	135	9 357	3 198
Bank Express⁽³⁾	25	26	721	615
Total	1454	1059	30 087	19085

Source: (BDDK, 2001c:9). ⁽¹⁾ Including Interbank and Esbank ⁽²⁾ Including Ege Bank, Bank Kapital, Yurtbank, Yaşar Bank and Ulusal Bank ⁽³⁾ Since 30th June 2001.

With the purpose of speeding up the pursuit and collection of the receivables of SDIF banks especially the losses resulting from the abusing of the majority shareholder and the administrators; an exemption from the liabilities resulting from the proceeding laws was provided to prevent the problems faced with during the collection through pursuit and delays, specialized courts were requested to be established for the fast conclusion of the legal conflicts and also it was requested that the pursuit of the nonperforming loans will be carried out by SDIF instead of by banks one by one and in this way, the collection will be speeded up (BRSA, 2001b)

2.4.4. Measurements Related with the Private Banks

Following November 2000 and February 2001 crises, with the purpose of enabling the confidence of the economic units in the financial system and the confidence that the actors in this market have in each other, daily information is acquired from the private banks and their activities are observed closely. The profit for the period was transferred to the capital, the criteria of the proficiency of the capital was taken into consideration and letter of commitments were taken, which include the increase of the capital or obtaining credit similar to the capital or re-structuring strategies. Although these letters can vary according to the financial structure of each bank, they include the issues such as increase of the capital within the framework of a certain calendar, obtaining credit similar to the capital, union, rationalization of the number of the branch office and personnel, reducing the cost, re-structuring of the condensed credits, sales of the shareholding and real estate, sales of some or all of the shares to the foreign and native partners.

An agreement has been made upon the letter of commitments based on the calendar including the plans about the increasing of the capital proficiency ratio of the private banks whose financial structures are weak to the rate of %8. Turkish Republic Central Bank accepted to pay an interest on the basis of market rates for the supplemented reserves that were allocated for the saving deposits in TL to decline the equity costs of the banks. Necessary legal regulations were carried out to ease and enable the union of the banks and their shareholdings. 1.1 billion-dollar part of the capital increases that the private banks commit as 1.4 billion dollar was realized in the end of July 2001. In 15th June 2001, with the barter of debt done based on the volunteering, Government Debt

Securities (DIBS) in the amount of 9,335 Trillion TL (8 billion dollar) was exchanged with the bonds in dollar and TL, term structure was raised to 37.2 months from 5.3 months. (BRSA, 2001d: 3) With this barter, the open positions of the banks were closed in a large scale; the currency risk was passed to the Treasury. Associations of Private Finance Institutions were given the authorization to found the “security fund” with the purpose of the protection of the savings in these institutions and to determine the procedures and principles concerning this fund.

3. THE DEFINITION AND THE FRAME WORK OF GLOBAL CRISIS 2008

3.1.THE DEFINITION OF GLOBAL CRISIS 2008

In the foundation of global crisis exploding in USA at first in September 2008, later spreading all worlds, the biggest real estate and credit bubble lies. The mortgage market in USA had reached around the size of 10 trillion dollar and became the biggest market of the world with that state. In the beginning, great weight of mortgage credit consisted of the credits given high quality customers. These are called “prime mortgage” credits. In time, the credits started to direct lower quality customers. These are also called “subprime mortgage” credits. In the middle of 2008, the volume of subprime mortgage credits had risen 1.5 trillion dollar. As the interests in USA was quite low level in the past, the groups with low income using subprime mortgage credits had preferred credits with variable interest. Decreasing in household prices accompanying the successive increase of interests by FED in recent periods had caused that these persons could not pay back the credits they took.

During the time which Case Shiller index used to measure real estate prices in USA showed 16% decrease from middle of 2007 to middle of 2008, experts suggested that this index should be 10% lower. That comprised a big shock for Americans thinking that their welfare increase with rise of their estates and spending money by debiting in this respect. Estate owners in England were also debited more. That is, the last rise of capitalism was founded on swelling of properties. Estate prices rose, estate owners themselves feeling becoming more richer increased their spending; that brought boom in market and estate prices increased more. As estate prices increased, property demand soared more, this time financial transactions made with papers based on property grew gradually. Everyone bought his/her second, third property for investment purpose. The assumption underlying this investment was that these could be sold with high price one day. When it was understood this assumption could not be truth, prices turned to decrease and bubble started to deflate.

Even though swelling of estate prices are under global crisis 2008, it is described a kind of credit crisis created by the transactions made predicated on credits not only on the credits. The thing creating problem was arisen from the credits changing hands at unbelievable scale. This changing hand was carried out by a financial discovery named derivative products. Derivative product is the contracts that companies can canalize their risks resulted from other transactions to shopping. For the one giving mortgage credit, these contracts provided that the risk of non-payment by the one using utilizing this credit transferred to third parties for instance hedge funds. The credit institutions transferring risk could also enter bigger risks and credits naturally grew like topsy. Derivative products benefiting to transfer risk initially and doing insurance function in this meaning had begun to be a risk element itself slowly.

When we look at from the point of these relations, nearly all banks trading in global size had begun to be guarantor for each other and the bank that these relations concentrated at most also became Lehman Brothers. When the news that contracts could not be performed became a very hot issue, Lehman Brothers encountered with bankruptcy fact. It could not execute the conditions of contracts against banks, not make necessary payments. Government and FED explained they would not save this bank. This explanation meant an emergence of great loss for banks having payee position from Lehman Brothers. In fact bubble had boomed the moment the understanding of its bursting was that moment.

When considered macro-economically, case was complicated. USA gave the biggest current deficits of its history. In spite of that, it drew big amount fund and financed current deficit with that. System roughly worked like that: USA companies takes their capitals, technologies and went to China, started to production with cheap Chinese labour, invested the profits obtained from there to USA Treasury bonds. Current deficit of USA was funded by Chinese labour substantially. However it was known this deficit could not last forever and in some point an amendment should be made on USA economy. Namely external balance of USA was also positioned on a bubble.

While such bubbles formed on the one hand, in 2008 oil, food and metal prices begun to increase rapidly. These increases leded to adding of new negative expectations to pessimistic air already occurred in financial section.

Crisis 2008 is a financial crisis that combination of the mortgage credits given marginal areas, persons and institutions and the derivative products becoming endless had created. The main reason for such growing of this problematic area is deficiency of rules and inadequacy of audit. It is not correct to look for reasons of crisis 2008 on one point. But non application of main rules or non extension of their scopes seems as basic reason. With the effect of deregulation fashion, lessening rules of former period, liberalization; bringing rules for derivative products was opposed.

There are many reasons that crisis has also influenced the countries under development route deeply. At first, hot money was begun to be drawn these countries. When problems emerge in the countries being source of hot money, the fear of these problems affects developed countries led to exit of hot money. When the lowering of growth in developed countries caused to decline of demand, the import made from developing countries also diminished. This situation resulted in the decrease of foreign trade incomes of developing countries and so shrinking of their economies. As a result of this mutual shrinkage trend, oil, metal prices this time entered in very fast collapse. This also created a deflationary effect.

The difference of crisis 2008 from other crisis is that this is completely a global crisis and has affected all countries in the world.

3.1.1. Developments in Euro Zone Economics

Summarizing the developments in EU economics that has great significance especially for Turkey following the developments in USA is concerned with the subject in terms of the purpose of the thesis. Euro Zone economics that had grown in the rate of % 2.1 annually in the first quarter of 2008 grew in the rate of % 1.4 in the second quarter of the year when compared with the previous year. While high-rated construction sector activities that are recorded based on the positive weather conditions in the first quarter of 2008 was the gripping factor in the first quarter, the decrease in the domestic demand that occurred especially owing to the lessening of investment expenditures led to a reduction in the economic growth when compared with the previous quarter. Euro zone manufacturing industry confidence (PMI) has gone below 50 threshold value in 2008, June and it indicates that the growth expectations has turned into the negative from the positive. The downside movement in PMI continued after this date and it has regressed to the level of 45 since September. (Parasız, 2009)

Euro zone decreased in record level with the percentage of 4,6 after 14 years in the first quarter of the year. (Alptekin, 2010). Also it is seen that the share of both import and export has lessened in the national income. Euro Zone Harmonized Index of Consumer Prices (HICP) inflation increased in 2008 August in the rate of % 3,8 and in September, in the rate of % 3,6 and it was over the level of % 2 that is accepted as ideal for the price consistency. Due to the global financial crisis that got deep, significant changes were recorded in Euro zone money policy. ECB (European Central Bank) governing council increased politics interest rate in 25 basis point and it increased to % 4,25 in order to reduce the secondary effects of the HICP inflation and to reduce the upside risks that are increasing on the price consistency for the mid period in the June 2008 dated meeting. Even though the inflation rate is progressing in an acceptable level, ECB has decreased 50 basis points and reduced to % 3.75. (Parasız,2009).

One of the countries that are affected by the crisis most is definitely Iceland. With the effect of the crisis, following the bank bankruptcies, Iceland government resigned and political inconsistency atmosphere has already brought lack of confidence. This led up to the hardest conditions that may be experienced in the crisis atmosphere. However, Iceland demanded help from European Union in order to get rid of the hard situation it goes through. EU commission has also started preparations concerned with the subject and the final decision is expected to be done following the general election that will be made in May in Iceland. It has been put forward that possible assistance application will be regarded as positive in EU center and full membership of EU negotiations that normally continue for years will be made “in a fast rotation” for Iceland and it will be a new member of EU in time that will be regarded as record. (WEB_1, 2010)

The other country that will be emphasized during the crisis is Greece, member of EU. Greece is going through social tension in addition to the economic depression. Also the fact that the economy of Greece is getting worse, President Yorgo Papandreu responds to the austerity measures, syndicates respond with the strike and protest demonstrations and indicates that one dimension of the crisis has reached to the level of social depression. The measures that envisage the reduction of the public expenditures in the rate of % 10 did not satisfy the money market. International Credit Rating Agency defended the idea that these measures will not be enough to solve the problem and reduced the credit rating of Greece. According to the news published in the official

site of IMF, Greece demanded help and the work with the competent authority has begun. (WEB_2,2010)

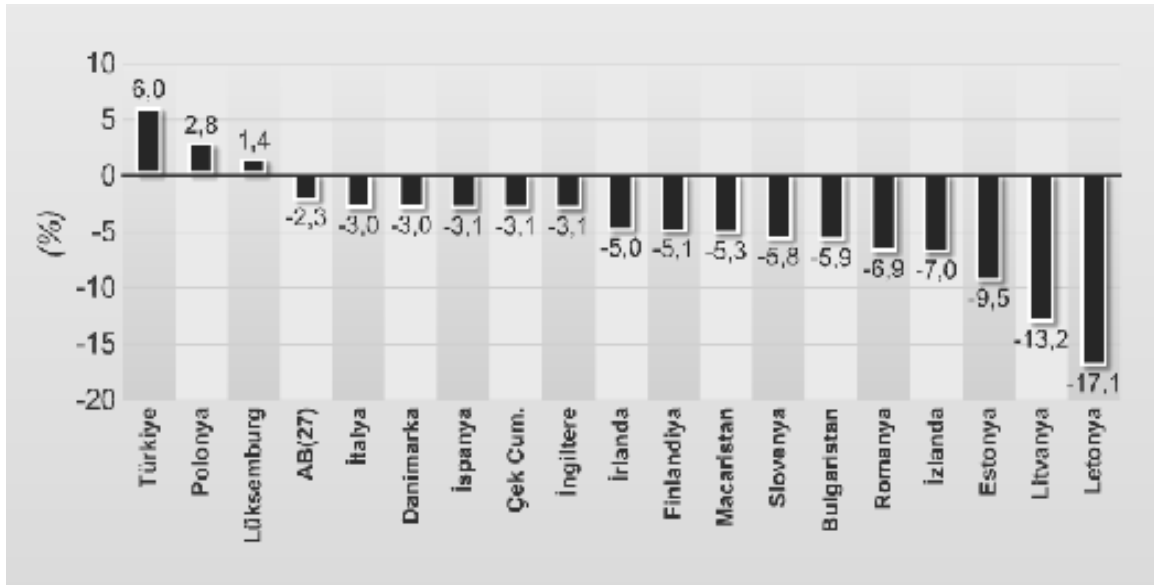


Figure 3.1: Growth in EU Countries in the Last Quarter of 2009

Source: Mehmet Şimşek, "Macroeconomic Developments," 2010, <http://www.maliye.gov.tr> (15 April 2010).

In the figure 3.1., above, growth rates of EU countries in the last quarter of 2009 are indicated. According to this; it is seen that there is a reduction in the growth rates of all the countries except for Poland and Luxembourg. When we examine the average growth rates of EU countries (27) , it is seen that there is a regression in the rate of % 2,3. This situation indicates that there is a serious economic depression in addition to the crisis in EU countries.

3.1.2. Developments in Japanese Economy

The other country that is affected by the crisis is Japan. Due to the fact that Japanese has American bill of exchanges and bonds, she was exposed to the effects of the fluctuation of the Financial Crisis. After the Japanese economy grew in the rate of % 2 in the third quarter in 2007, the last quarter went through a growth little behind with 1,8 rate. The expectations concerning the fact that the increase in the energy prices will continue strengthened the expectation that the consumer inflation will go on increasing. (WEB_3, 2010)

Japan experienced the biggest reduction after the crisis (WEB_4, 2010). Japanese government made a decision related with the capitalization of the banks in the process of managing a crisis and increased the capital reserved for this fund from 2 Trillion

Japanese Yen to 12 Trillion Yen (131,1 billion dollar). Also the Government made a decision to spend 1 trillion yen for supporting the employment. Japan Central Bank (BOJ) reduced the indicative interest rate from the % 3, level to %1. (WEB_5, 2010)

President Taro Aso said that more work is required to support the country economy even after the approval of the 18 billion-dollar encouragement plan. Also, he also supported by giving 45,5 billion dollar to the banking system of Central Bank of the country. (WEB_6, 2010)

Developments in Chinese Economy

One of the most important reasons of the Global Crisis is the Global imbalances the effect of which is consistently increasing between 2001 and 2007. The two countries that heavily contribute to the global imbalances are America and China. While the foreign trade deficit of USA increased in the mentioned period, the foreign trade surplus of China got higher. In 2001, the foreign trade surplus of China which was 34 billion dollars reached to 360 billion dollar in 2008 and the foreign trade surplus of USA which was 360 billion dollar in 2001 reached to 840 billion dollar in 2008. When examined roughly China is producing while USA is consuming. China is increasing her foreign exchange reserves with the acquired foreign trade surplus and China invests these increased reserves to USA Treasury bills of exchange. This imbalance continued by increasing till 2008 crisis. (WEB_7, 2010)

The fact that the epicenter of the earthquake that the global crisis created is USA made the comparisons between these two countries more interesting. For instance; one of the most interesting results of the global crisis is the fact that USA that criticized currency of China, Yuan is low is experiencing the same situation today. (WEB_8,2010)

In the first two months of 2009, the growth of China in the industrial sector regressed in the rate of % 3,8. This regression definitely stems from the regression in the exportation. The statistics of February 2009 indicate that the consumer products total retail sales of China exceed 2 Trillion RBM with % 15,2 increase, when compared with the same period the previous year. The number decreased in the rate of %5 when compared with the increase of the same period of the last year, it decreased in the rate of % 6,4 when compared with the increase of 2008 and there has been an increase over % 20 for the last 13 months since November. Here the point that should be emphasized is

that it will be harder for China to continue the increase of % 15,2. However, pressures are increasing on the incomes of the consumers and as the consumption will be affected negatively after some time from the starting of the crisis, a progressive decrease in the statistics concerning the consumption is being expected. When we examine the statistics, following the high level of % 23,3 experienced in January in 2008, the consumption numbers of the China has decreased.(WEB_9,2010)

The fact that the gross national product regressed to % 6,1 as 6,574i5 billion yuan in the first quarter of 2009 was notified from Chinese National Statistics Agency. This has been the lowest rate of growth in China since 1992 when the growth rates started to be recorded. The growth rate in the country was % 6,8 in the previous quarter. (TUSIAD), (WEB_10, 2010)

Developments in Russian Economy

The crisis began to get deeper in the real sector in the Russian economy whose petroleum income decrease. The industry production in January 2009 experienced a loss of % 19 when compared with December 2008, and % 16 loss when compared with the same period of 2008. The fact that the expected fall for the whole year occurred in one month led to anxiety in the economic atmosphere. Within the framework of the “Controlled Devaluation” the ruble was devaluated 16. times against dollar in the midst of January 2009 and it experienced the biggest devaluation in the last ten years against the dollar. The ruble lost % 27 value against the dollar from November 2008 till the midst of January 2009. (WEB_11, 2010)

3.1.3. Developments in British Economy

Gdp (gross domestic product) that increased in every quarter in the last 15 years was % 0 in the third quarter of 2008 and after this; the predictions concerning the efficiency increase in the manufacturing, construction and service sectors were corrected downsides. From 2008 September, third quarter data that is deteriorating with the global financial crisis indicated that British economy was on the threshold of the technical recession .GDP which got smaller in the third quarter of 2008in the rate of % 7, got smaller in the rate of % 1, 5 in the fourth quarter and it confirmed that British Economy is in the technical recession. GDP recorded a reduction in the rate of % 1,9 in the first quarter of 2009. (WEB_12, 2010)

When we examine the Financial Losses of England, in April 2008 especially when the crisis began to affect England, total financial asset loss was 62,7 and in October, in same year, it increased to 122,6 billion English pound levels.

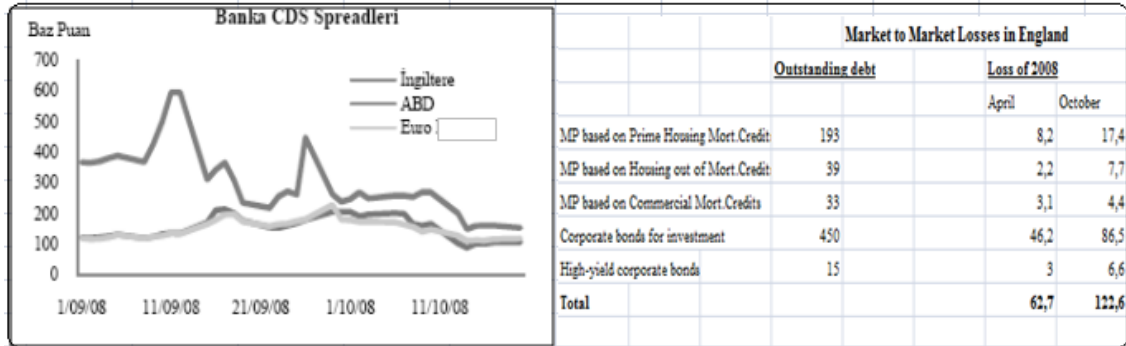


Figure 3.2: CDS Spreads of Banks in 2008

Market to Market losses in England is listed below;

Table 3.1: Loss of the Financial Products

Financial Asset (Billion)	Debts which are not due	Loss in 2008 (April - October)
Prime House Mortgage Credit Litigious Mortgage Credit	193	8,2 - 17,4
House Credit except for mortgage. Shared Mortgage Credit	89	2,2 - 7,7
Commercial mortgage credit .shared Mortgage Credit	33	3,1 - 4,4
Firm's bills of exchange with the purpose of investment	450	46,2 - 86,5
Firm's bills of exchange with high profit	15	3,0 - 6,6
Total	627	122,6

Source: BRSA, "British Experience in the Global Crisis", 2009

3.2.TURKEY'S SITUATION

3.2.1. Current Deficit Problem

1970's, 80's and 90's has passed with budget deficits. Budget deficits created serious problems, merging with public section deficits out of budget and eventually system collapsed because of failing to bear this burden. In that period, our current deficit was as much as low not to be compared with today. In 2000's, budget deficits closed rapidly, on the contrary, current deficit grew quickly. Our budget deficits are quite below 3%, determined as Maastricht criteria. In spite of that, our current deficit is between 6% and 7% of GNP.

Current deficit drolly helps closing of budget deficit due to taxes. Ignorance to current deficit of government is resulted from that a little bit.

3.2.2. Outstanding External Debt Problem of Private Section

As of end of June 2008, outstanding external debt of private section has risen to 190,5 billion dollar. Table 17 shows Turkey's outstanding external debt from end of June 2008 comparatively with past years (From data belonging to 2008 in the table, those except for indices and ratios presents the values at the end of June 2008, GNP figure shows year end prediction, indices and ratios of 2008 offers the relations of June data with GNP prediction).

Rate of increase of Turkey's total outstanding external debt has left behind rate of increase of GNP between 2002 and 2008. In other words, in this period, GNP has increased more than outstanding external debt. As a result of that, while the share of total outstanding external debt in GNP was 56,1% in 2002, it was declined to 40% in the middle of 2008.

As rise of outstanding external debt of public section falls quite behind GNP increase; the share of outstanding external debt of public section in GNP declines rapidly. While this ratio was 27,9% in 2002, it decreased to 10,9% at the end of June 2008.

Outstanding external debt of Central Bank (CBT) declined quickly firstly and now pretty below the debt in 2002 in spite of later entering in light increase trend.

While ratio of outstanding external debt to GNP was 9,5%, this ratio decreased up to 2,3% in June 2008.

It seems that space emerging the drop of outstanding external debt of public section and CBT has been filled by private section quickly. Rate of increase in outstanding external debt of private section between 2002- 2008 goes ahead of rate of increase of GNP. So while the ratio of outstanding external debt of private section to GNP was 18,7% in 2002, it climbed to 27% in June 2008.

Outstanding external debt of private section is among the indicators which would make its mark to next period. Do not let the removal of grave outstanding external debt on public section for years or the tables comparing receivables with debts mislead anyone. In a growing economy, these things do not become problem. But in an

economy that growth stops, paying debts aside, even non renewal of these creates big problems.

Table 3.2: Outstanding External Debt of Turkey

Billion USD	2002	2005	2006	2007	2008 II. Quarter
Outstanding external debt of public section	64,5	70,4	71,6	73,5	77,7
Outstanding external debt of TCMB	22,0	15,4	15,7	15,8	16,2
Outstanding external debt of private section	43,1	82,6	117,9	157,9	190,5
Short term	13,9	32,2	36,0	37,4	47,8
Medium-long term	29,2	50,4	81,9	120,5	142,7
Total outstanding external debt	129,6	168,4	205,2	247,1	284,4
GNP	231	482	526	659	710
Indices and rates					
GNP increase (2002=100)	100	209	228	285	307
Increase of outstanding external debt of public section (2002=100)	100	109	111	114	120
Outstanding external debt of public section/GNP (%)	27,9	14,6	13,6	11,5	10,9
Increase of outstanding external debt of TCMB (2002=100)	100	70	71	72	74
Outstanding external debt of TCMB /GNP (%)	9,5	3,2	3,0	2,4	2,3
Increase of outstanding external debt of private section (2002=100)	100	192	274	366	442
Outstanding external debt of private section /GNP (%)	18,7	17,1	22,4	24,0	27,0
Total increase of outstanding external debt (2002=100)	100	129,9	158,3	190,7	219,5
Total outstanding external debt/ GNP (/%)	56,1	34,9	39,0	37,5	40,0

Source: Turkish Statistical Institute (TSI)

3.2.3. Problem of Decline in Growth

Growth momentum starting very next of crisis in 2002 has enabled growth between 6-7% in last 6 years of Turkey. When gaining value of TL is added to that, our GNP has folded into thirds. Real growth merging with virtual growth has caused that it is perceived everything goes better and finally expectations develop in positive way. Positive expectations have increased in the level not seen in last 6 years. When combined with positive air that EU negotiations bear, this has lead to peak of foreign capital investments for Turkey and increase of investment in Turkey overcoming foreign capital problem.

As a result of reversal of world conjuncture, liquidity congestion and the decrease in risk taking appetite, this positive development has paused firstly, later begun to turn reverse slowly. Finally, the growth in Turkey has turned to decrease and the positive momentum caught begun to be lost. (Figure 3.3)

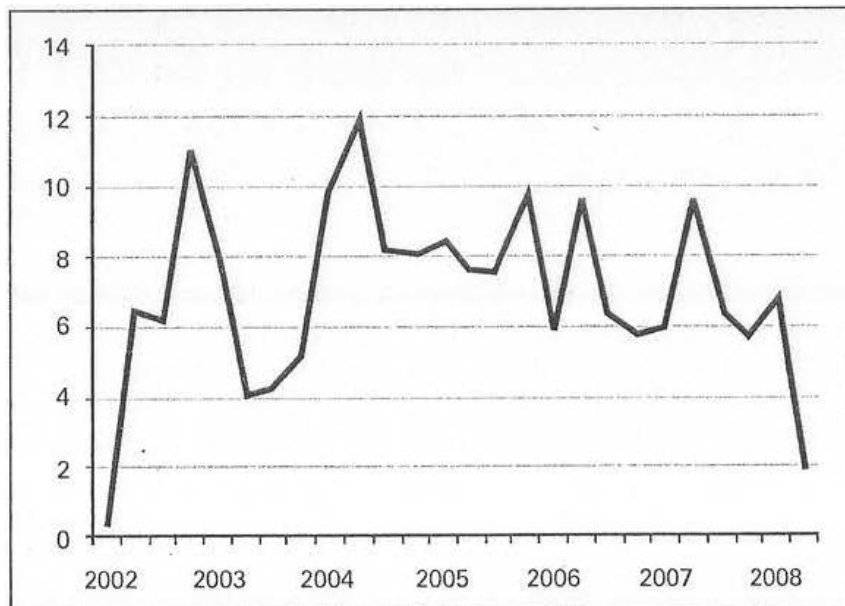


Figure 3.3: Growth in Turkey's Economy

Source: Turkish Statistical Institute (TSI)

3.2.4. Unemployment Problem

Unemployment problem has been growing in Turkey since 2000's. One of primary reasons of this is employment loss of agriculture section and non elimination of this loss by other sectors completely.

Table 3.3: Unemployment rate in Turkey and Employment of Agriculture Section

Years	Unemployment rate (%)	Employment in Agriculture (%)
1997	6,8	42
2000	6,5	36
2001	8,4	38
2003	10,5	34
2005	10,3	30
2006	9,9	27
2007	9,9	26
2008	10,0	25

Source: TURKSTAT

Table 15 reveals this development. While employment rate being 42% in agriculture at the end of 1990's decrease rapidly from 2000's, unemployment rate being around 7% has come two digits level by increasing starting from 2000's.

Whilst Turkey looks for job for its new unemployed from 2000's at the one hand, it has become a country looking for job for its hidden unemployed emerged from its agriculture section.

If we consider that global crisis 2008 would make main impact to Turkish economy in 2009 and next years, expecting more increase of unemployment rate in next period would not be a wrong prediction.

3.2.5. Hot Money Problem

There are two ways to provide resource from abroad. First one is directly from entry of foreign capital; second one is drawing resource through portfolio investments such as sale of stock. The foreign resources provided with the instruments found in second group are called hot money. Hot money comes to obtain interest or dividend income or take income increase difference. Their coming types are in the manner of credit, deposit, bond and stock. The credits obtained from a finance institution at abroad, deposits invested to Turkish banks by foreigners, foreign money deposited to bonds and bills issued by Treasury and institutions if available, foreign resources directed to stocks in Turkish exchange market are samples of hot money. Hotness of these is arisen from that they can easily exit from market and country. That is when they see the smallest

fluctuation and crisis probability; they can exit, converting these listed instruments into money. Because the freedom of capital movements have been accepted.

Turkey is a country drawing hot money all along. In the past due to highness of political risks, instabilities in its economy, troubles in its relationships with its neighbours, it could not draw foreign capital investment. In the periods that Asian countries drew investment of billion dollars, Turkey obtained direct foreign capital around annual 1 billion dollar. Great majority of foreign resource need was provided from the ways I have mentioned above. In order to realize this, it paid high interest. When the relationship with EU has become serious and reached to negotiation stage, direct foreign capital entries towards Turkey have begun to access 20 billion dollar per year. In such environment, it is anticipated that economy turns from hot money to foreign capital. However, it has not happened like this in Turkey. As its current deficit increase rapidly, Turkey has not succeeded to replace these two resources. While direct foreign capital has increased, hot money has also increased. Because Turkey has continued to give the highest interest of the world. If Turkey was concentrated on financing its current deficit with foreign capital instead of hot money, it would be in more comfortable position now. Unfortunately persistence on high interest has caused leaving of current deficit at that level.

It is a known reality all along that negativities in risk perception towards Turkey create exit of hot money from Turkey. The pressure on currency of such exit is also other side of reality. In an environment that current deficit has come such record level, these exits can produce more destructing results than hot money movements in the past. In such cases, the measure coming to mind firstly is to increase interest and balance the risk increase with return attractiveness. But, in an environment that risk perception increases and furthermore expands to global area, interest increase can also create exact reverse effect. Investors can direct to exit their money more rapidly, thinking that the country rising interest is in desperate position.

3.3.MEASURES TAKEN FOR SOLUTION OF GLOBAL CRISIS ACCORDING TO COUNTRIES

In the following Table 3.4, measures taken by central banks of industrialized and some developing countries for solution of global economic crisis are seen.

Table 3.4: Measures taken by Various Countries

	Conventional Money Policy Tools		Instruments for Solution of Crisis						
	Liquidity Injection	Change of Interest Rate	Guarantee for Special Deposit	Guarantee for Bank Credits	Commercial Paper Purchasing Funds	Purchase of Mortgage Bonds	Prohibition of Short Sales	Capital Injection	Option to purchase of toxic assets
USA	X	Discount	X	X	X	X	X	X	
Japan	X	Discount		X			X		
Germany			X	X			X	X	X
France				X			X	X	
United Kingdom	X	Discount	X	X		X	X		
Spain			X	X		X	X		
Greece			X	X				X	
Turkey	X	Discount							
Hungary	X	Discount	X	X				X	
Poland	X		X						

Source: OECD Economic Outlook December 2008

ANNEX I. RELIEF PACKAGES DEVELOPED BY FIVE INDUSTRIALIZED COUNTRIES IN THE WORLD

Table 3.5: Relief Packages

	JAPAN			CANADA	CHINA
	August 2008	December 2008	January 2009	January 2009	December 2008
Relief Package	16.5 billion dollar	100 billion dollar	54 billion dollar	32 billion dollar	566 billion dollar
Banking	4.3 billion dollar (400 billion Yen) credit guarantee		Japan Central Bank will make purchase from stocks in hands of banks and trading in exchange market		
Real Sector		Through a fund to be established, 16.7 billion dollar company share will be purchased	Extension of credit possibilities of small enterprises		
State Investment		spending package of 100 billion dollar			
Automobile Sector			22.3 billion cash payment from tax payers		
Tax				20 billion dollar tax	17.5 billion dollar tax assistance
Construction and Transport				7.8 billion dollar construction	
Health Insurance					
Employment and Education					
Infrastructure, Transport and Energy Investment	12 billion dollar				
Other	8.3 billion dollar to Canadians mostly affected from crisis and 7.5 billion dollar support to some sectors and regions				

ATTACHMENT_1

3.4.LESSONS TAKEN FROM BANKING SECTOR IN GLOBAL SYSTEMIC CRISIS 2005-2009

While limited liability was shaped within the framework of its legal basis, it was concentrated on dynamic turning into market turmoil. Healthy working of financial markets of Continental Europe, Anglo-Saxon, Asia Pacific and developing countries needed tighter rules in financial traffic. Global systemic crisis 2005-2009 took its source from legal provisions of limited liability. Those offering loan to institutions made only fund support without requesting any sanction or claim despite individual assets of institution owners. Limited liability ignored systemic disaster risk. In welfare economic conjuncture, all kinds of risks was assumed like fertilizer thrown in soil.

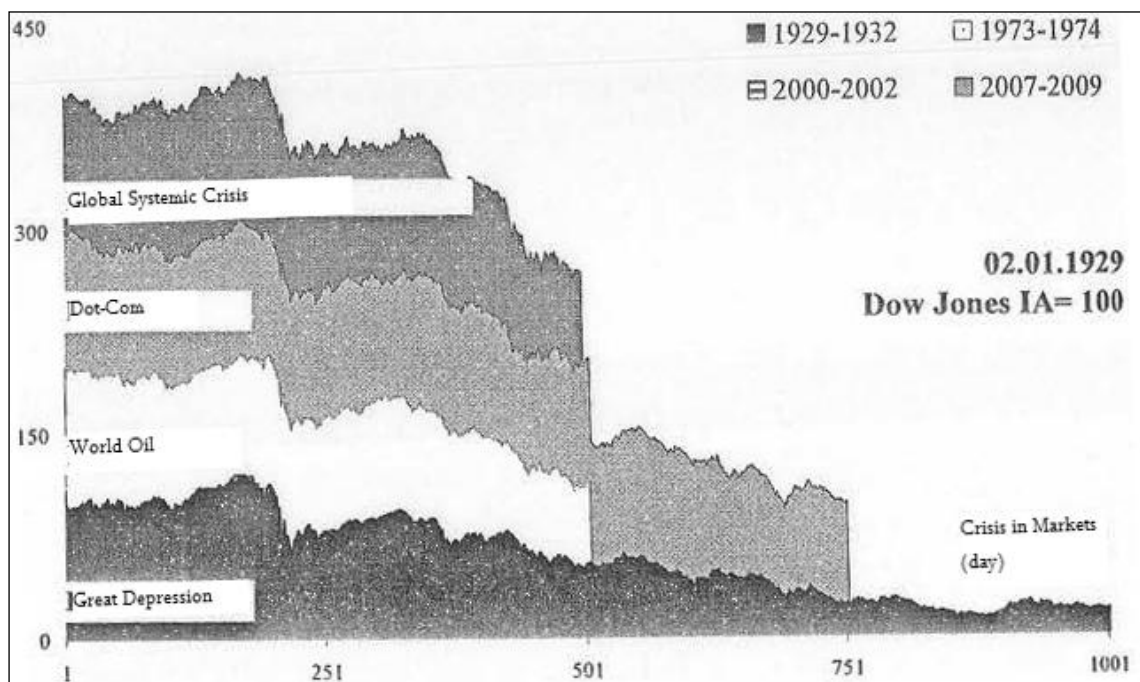


Figure 3.4: Time comparison of Global Systemic Crisis 2005-2009 with Conjugate Crisis

When arrived to 2005, it transpired but systemic fragility also ascended to throne in its summit. With anonymous saying, put the cart before horse, turmoil structure settled in system, so fragility rose. Limited liability also occupied agenda during S&Ls crisis. High competition in markets, profit alternatives presented for portfolio managers fed development of system. Viewpoint was completely cross-eyed. Extraordinary loss was shaped with extreme point description. In welfare economy periods, investors preferred

high risk projects rather than the projects with average profit expectation. Because a projection in the manner that realization frequency of systemic risk exceeds average human life was taken into consideration. Considering loss possibilities created an alternative loss as opportunity cost in terms of investor. As things went right, investor benefited from efficiency in profit. In worst conditions, it was assumed that losses would remain in certain limits. In the past, shareholders resisted to loss in the extent their lowering shares. Because their claims against private properties was deactivated. Asymmetric risk structure has not only encouraged risk taking character but nearly urged it. High uncertainty fact in depression economies has turned limited liability management into a serious problem in short time. Former phase of depression economies was overheated conjuncture. In this phase, investors transformed to a gambler. If a common ground was reached, it would be possible to remove systemic risk triggering alternative of limited liability management. Gamble, high risk, game and player are always available. Now they are present and will also be in the future. Wide ranging limited ownership determined from ratio of share of dominant group in capital to job volume was found. In this case, working with quite low level equity and distribution of this capital to stock investor as soon as possible was found suitable. Small groups such as on the one hand, main partners of paid up capital and on the other hand stock investors had advantage and disadvantage in the extent their dividends. Three ones of biggest five banks of USA is prey of crisis. After global systemic crisis 2005-2009, leaders of USA banking sectors either could not enter in top 50 in universal ranking of market value or entered from end of list. USA banking sector ruled out systemic risk substantially. The risks not taken into account fell on all sectors in USA economy as negativity in short time. Limited liability method was like a strategy of USA economy. It had great contribution in its historical dough. Investment banks adopted limited liability strategy one to one complied with their strategies. Investment banks of America did not subject to audits of national banking system. Exemption from audits hindered investment banks from liability of keeping protective capital against risk. Capital support level of investment banks was at low levels. Compared with the risk they undertook in total USA banking system it was very insufficient. Rate of “equity/ total asset” owned by investment banks was only around 4%., reserve requirements, insolvency limits and capital adequacy ratios within the framework of

Basel-II for commercial banking had been standards and applications that investment banks looked at from far constantly. Even private commercial banks with minimum rate of “equity/ total asset grabbed attention with a ratio more than 4%. Investment banks also found a way of keeping themselves out of audit too. By moving complicated credit operations out of their balance sheets they could ignore systemic risk requirements of holding capital. So they used opportunity risk, high competition impulse to stimulate their growths. They could show active growth rate in the percentage they wished with the assets they took out of their balance sheets.

For healthy operation of audit, supervision, regulation functions of credit rating agencies in crisis, placement of two main motifs was required. First one, investor profile of credit rating agencies should be extended to contain gambler, gamer or Ponzi style profiles as well. Notes of rating agencies determines cost element in bargain between two parties. First party was finance institutions shaken by high risk taking appetite. Second party was also finance institutions shaken by risk of other party in crisis. A healthy working credit rating system is an important buffer for correction itself of market. In the interest between creditor and borrower, it has deterministic power on risk premium perception.

Decay in extraordinary hardness of market revealed how credit rating agencies fed with an illusion. Rating agencies were main illusion reason in crisis. The countries mostly dependent on illusions in valuations become most fragile countries. Because rating agencies could not give the warning which is expected, in enough level. AAA rating was the highest level of rating criteria. There was not another upper alternative rating. 80% of product pool of finance credit system based on high risk mortgage was valued with AAA rating. Credit rating agencies were among institutions offering counselling, independent audit, consultancy services. However rating agencies remained standing by taking money, funds from the institutions they audited. These agencies were dependent on the companies they audited. In order not to cut its own throat, they avoided from telling truth continuously. Primary customers of rating agencies became the institutions losing value from start of first days of crisis. They were institutions staying out of system in first sparks of global systemic crisis 2005-2009, having saved by taking public support, needing liquidity aid. Before crisis, rating agencies announced many multinational firms more sound according to small scales. Overvalued institutions

could be the ones affected mostly from destructive effects of crisis. They entered in crisis balance of 2008 with lower values. Rating packages of credit rating agencies directed investment decisions of USA households for years. If communication platform has the character of providing information for all sections of society, its fairness from being misleading is very important. Blemish of information source could not be handled by any society. Finally a data resource relied by all sections of society is the point that global finance system mostly needs. “Counterparty risk” emerged with crisis is the work of this disbelief. If the best ones before crisis collapse even with first waves of crisis, it means that asymmetric information has collapsed everything it encounters in finance system.

Bank bonds and other assets also got their shares from evaluations of credit rating agencies. When rating information channels do not operate healthy, they could not warn cases properly. It was shaped on routine analyses based on that capital is every time more expensive than debt. If those investing bank bonds were informed correctly, they would be prepared about their repayments. In return for right ratings, creditors would demand different risk premiums and request more discounts on interests. From the point of main criteria, liability was calculated more valuable than equity. Finance theory, Miller theorem envisaged that debt was cheaper, capital was more expensive. But this classic theorem did not work in each economic conjuncture with the same correctness. In global systemic crisis 2005-2009, Modigliani Miller theorem did not find any reasonable provision due to high risk carried by debts. Everyone can use leverage effect by comparing equity with debt. For its use, good determination of risk is very important. In evaluations before crisis, the institutions with high debt were evaluated as high productive. If a growth funded by equity in total balance was dominant, credit rating agencies approached such development negatively. Equity and debt capital, highness of the ratio of “equity/total assets” did not reflect on valuations as high payment ability. Holding high equity was a defensive strategy. Therefore, logic of credit rating returned this size to its owners. But, in the process preparing global systemic crisis bubble, while bank bonds and securitized risks were transferred, they were crowned with legal and legitimate demands. This crowning realized with directing to real investment projects. Those purchasing in general lacked of the realities related to repayment possibilities.

Only sellers of derivative products, packaging these by securitizing had the details of this information.

In economy jargon, intermediary bank products are called as lemon products. Customer can access values of lemon products while buying these products. Things having adopted while presenting to market were internal values. Only when market loss and melting of market value was supported by value fact, really informed market and customer would be possible. But only in such market, it could be mentioned about success and victory. Let us take up a market that buyer and seller meets in terms of standards between importer and exporter in food sector analogically. In foreign trade, exporter countries put a lower limit they determine officially to their descriptions. The party supplying these products also defines an upper limit for acceptance of unhealthy contributions.

Financing crisis system loans based on high risk mortgage and the liabilities derived from these of household in USA formed lemon products. Loans given USA household turned into lemon products, financing products based on mortgage or guaranteed debt obligations. High indebtedness in America is more prevalent than Germany. Data of banking sector discloses this difference. Loan conditions of USA were based on debtor roof giving a flexible debt in extraordinary size. When household with low income did not feel itself in confidence, it could return key of his/her house to bank director. With this return, it saved from payment responsibility; it did not carry the cost burden of buying - selling transaction too. All this easy loan acceptance terms and limited liability awareness was sufficient to keep real estate demand of USA household alive. This process goes back establishment of Fannie Mac in 1968 and Freddie Mac in 1970. While these supports drew saving ratios of USA below, it could put the indifference in investments forward. Limited spendable expenditure level remaining from necessary expenses of USA household was taken into account by creditors. If house prices lowered in very restricted level, a debt design to be carried by them was carried out. A structure lightening of debtors' burden was available as long as house prices rose. Growth in real estate sector, supported by all sections of society was turned into a bubble. Soon after, this bubble had burst, the destruction in economy put banking sector in crisis.

American public sunk in increasing foreign debt since President Reagan period. They set a comfortable life rising on debt. They financed their investments in such manner they used the capital coming from foreign countries by shaping it with derivative products. Instead of standing on savings, they relied on value increase of properties. The deficit in balance of payments which imported products and services marks ascended up to 5,5% of GNP. Extraordinary demand for USA investment products was found. A significant support was offered for before and after crisis. Finally the applications, modelling towards companies indicated the necessity of building of limited liabilities on capital based requirements, within the framework of legal, tight, minimum standards. Tighter and harder standards developed on their experiences of USA and Europe was required. For global scaled investments, necessary standards were:

“Development, enriching of regulations for USA economy involved formation of new BASEL II system and using it as basis. Governments had to embody this structure by taking of a strong and efficient internal control.”

A common financial audit system should be present in Europe. Each independent country had to establish its own debt and ownership on bank. Investment banks, hedge funds, special banking groups had to subject to similar rules in similar way with similar sectoral distribution. Additionally, commercial banks had to share the standards they developed with nation-wide. Data had to be ripened in financing crisis systems based on high risk mortgage and other real estate debts. Portfolio pools and the unguided growth in investment banks had to be prevented. Within this framework, limit had to be brought to balance growths of banks. Such structure had to be formed that banks could preserve their transparent and clear qualifications without moving away their expected and envisaged manners. In post crisis measures, approaches had to administer whole world within the scope of tighter rules. The rules which could undertake role in traffic of global economy had to support an operational transformation in the operability of financial capital markets without allowing any systemic interruption.

4. CRISIS MANAGEMENT

4.1. “CRISIS MANAGEMENT” DEFINITION

In a globalized world, the present business firms that continue their activities in a global atmosphere that is changing and developing fast need to foresee the crises and take precautions against the possible or occurring crises and defeat the emerging threats and use the opportunities in a good way in order to reach their purposes. For this, the administrative of business firms have to apply a crisis management before crisis, during or after crisis. Some definitions made in the subject of crisis management are given below:

Generally, crisis is considered to stem from the factors that are out of the inspection of the management. According to this thought structure, the fact that there is a quota in foreign markets, the capital costs of some countries are low and government subventions are high, the government has economical and legal errors, human resources and natural resources are abused is the source of the problem. If the real problem is with the reasons of the crisis, all the business firms need to be in eclipse. However, they are not. Some business firms may be losing their market share; however, some are removing the excuses of the others through having great achievements.

(Hammer,1994). The business firms that can apply the crisis management process well, before the crisis, during and after the crisis are able to transform the crisis into an opportunity in the crisis atmosphere. Crisis management, as a high- level element in the management repertory, composes organizational reaction against the events that are not routine when it is placed in an institutional way. According to Rhinard vd. (2004), the formations of the crisis peculiar to itself are classified under four titles: These are (Bernes and Oloruntoba, 2005)

- Taking Precaution: The system of defining the emerging crises.
- Making Preparation: Planning for the unknown situation
- Reacting: Making effective decisions and carrying out them
- Improving: Encouraging the getting normalized again.

In addition. Both taking precaution and making preparations foster the deep and effective prediction in the understanding of the unknown for the crisis situations and indicate the conditions. Generally, significant calamities and catastrophes lead to the crises. Within this context, the management of the process before the crisis is really essential in the protection of the business firm against the calamities and catastrophes.

According to Burnett (1998), the acquired findings as a result of the study carried out can be summarized as below:

- The possibility of a crisis and severity of the crisis varies according to the sector, business firm and the function. For example, according to the assumption of one specialist, there are nine kinds of the industrial crisis. These are; the perception of the public, the industrial relations, sudden market changes, production errors, top management attorney ship problem, seizure of the business firm with enmity, corruption of the regulation, the international events that create adverse effect and the crises of liquidity
- The solutions concerning the crisis have both short-term and long- term effects. In addition, the business firms need to be aware of the fact that both of them will be a permanent solution.
- The crisis may produce a gain like a loss. Crises may produce these possible gains; heroes may be born, the changes may gain speed, the secret problems may occur, people may change, new strategies are developed, early warning systems are developed, new competitive superiorities may emerge.
- To manage the crisis, there is no systematic and widely- accepted strategy. For example, specialists agree with a series of loose principles including the required steps in order to classify the negative results regarding the crises special to the sector.
- There are common difficulties regarding the crisis management. For example, these are; obscurity ,insufficient information registration or reporting methods, little data, insufficient communication, differentiated value systems, change in the management purposes, political problems, narrow-minded planning and insufficient time to learn.
- Organizations do not have the capability to think about the useful functions regarding the crisis. We can ask simply. What is the relative alternative cost of

the solution of the crisis that leaves the problem unsettled between the profit and cost? Although this subject attracts the attention, little importance is given.

Crisis management is the process of watching the changes and signals occurring within and outside of the business firm, foreseeing of the crisis, analyzing the changes and planning, organizing, directing, coordination and taking the control precautions and their application which will make the business firm adapt to the new condition. (Özden, 2009)

Crisis management process has three organizational group factor against the crises, these are classified as; management reaction, communication reaction and operational reaction. In order for the crisis to demonstrate an effective reaction, three group factors need to be integrated and coordinated. The process begins with the definition of the security deficiencies of the organization's work setbacks, development of the emergency cases and realistic solutions. Emergency case plans are the points in the communication and operational fields that act in parallel with each other. Operational reaction team is focused on solving as quickly as possible. Communication team is responsible for informing the key shareholder groups of the organization and getting their understanding and their support. The process, itself is very simple on the condition that it is applied in a right way. In the diagram 2.4, the effective reaction group factors are indicated. (WEB_13, 2009)

According to Alparslan vd(2009), crisis management require a two-phase process. These are the phases of preparation and reaction. In the preparation phase, organizations intend to determine the shareholders and the possible mistreated in order to prevent the crises that emerge and affect the shareholders. In the reaction phase, it intends to minimize the losses occurring due to the crisis. During the preparation and reaction phase of the crisis management, the manner of the organization towards the shareholders extend from refuting (making no preparation due to this), obligating to the obedience and the obedience depending on a request to making additional effort and legal expectations. Organizations may act in a proactive, consistent, defensive and reactive manner in both reaction phase and a preparation phase. For example; while the proactive manner requires that the truth should be revealed in the reaction phase to prevent the crises that trigger the other crises with the successive reaction, in the preparation phase, it may make an additional effort to be engaged with these

shareholders who get harmed due to the organizational decisions and activities in the crisis preparation phase and to make preparations for the great sort of crises. Likewise, in the reaction phase of a crisis, a reactive manner may require the responsibility for the effects on the mistreated person; in the preparation phase of a crisis, it may require a responsibility of a certain crisis or potential effects on one business firm or its stakeholders. In the table, 4.1, in both in the preparation and the reaction phase, different crisis management behavior samples (reactive, defensive, consistent and proactive) are indicated.

Table 4.1: Crisis Management Behaviors in the Preparation and Reaction phases of a Crisis

Crisis Management Behavior	Preparation Phase	Reaction Phase
Reactive	To refuse the possibility of a certain crisis. To refuse the potential crises effects on the firm and its shareholders.	To refuse every responsibility for the effects on the crisis and shareholders. Not making any cooperation, to hide the truths and to close all the communication ways.
Defensive	To make an analysis of cost-profit. To make a preparation for only the high cost crises that is expected to the business firm. If it is only obligatory with the law, to include the shareholder in the crisis preparations.	To confess some responsibilities for the crisis, but to struggle. If it is a must, to accept and if it is obligatory with law, to carry out.
Consistent	To accept the possibility of the crisis and its effects on both the business firm and a large group of a shareholder. It is legally obligatory, to include the large group of s shareholder.	To accept the responsibility for the crisis. To consider the needs of the mistreated with a desire and to tell the truth as far as you know.
Proactive	To develop the mutual trust and relation-based cooperation with all the shareholders. To try to include all the shareholders who are mistreated with the organizational decision and activities, in the preparation of a crisis.	To foresee the fact that the crisis may trigger the other crisis as a successive reaction. Before the media reveals, to find out the worst things related with you on time.

Source: Alpaslan vd 2009, 40.

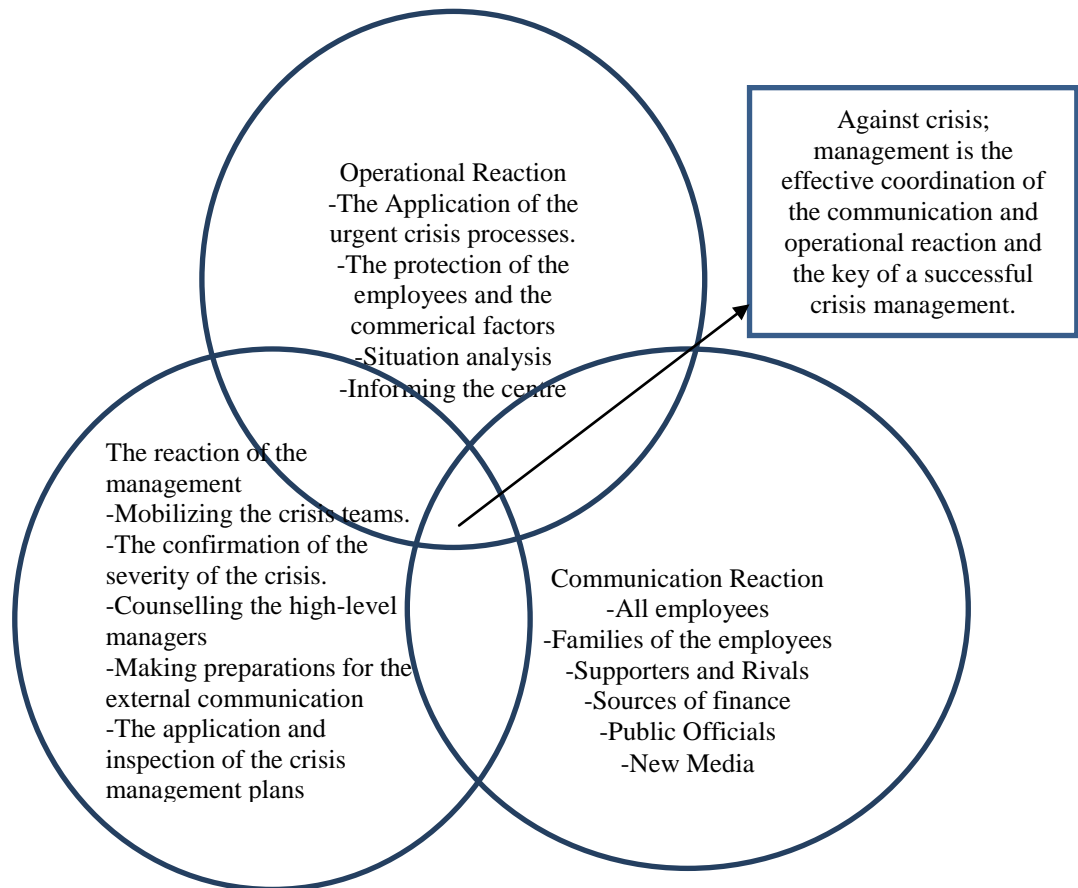


Figure 4.1: Effective Reaction Factors against the Crisis

Source: www.crisisexperts.com- ICM -01.09.2009

Making management plans and making them applicable are generally the duties of the managers and the commissions that are constituted specially and crisis management team. After the crisis, the managers have the opportunity to administrate the sources of income of the business firm, the expenses of the business firm, stock values, competitive power and the events that will affect the work processes deeply and also the have the opportunity to check over their own skills. The four dimensions of the effective management in crisis require actualizing the changes that are appropriate to the crisis conditions in parallel with certain strategies; its condition is to learn the strategy. To achieve the strategic targets, is the process of the evaluation the applied strategies and repetition of them, if needed, in parallel with the strategic plans that were carried out. From this point of view, strategic learning skill is the most significant power that enables the institution to survive and come to the fore in the competitive atmosphere. (Baltaş, 2002)

Crisis management is composed of four elements; these are, strategic management, technic and structural management, communication and the management of the

psychological and cultural elements (Table 4.2.). Organizations can be successful on the condition that they carry out studies on all of these dimensions. In the contrary case, it is not possible to manage the crises. (Pira and Sohodol, 2004)

Table 4.2: Four Dimensions of the Effective Management in Crisis

Strategic Management	<p>The radical change in the institution philosophy that is appropriate to the crisis</p> <p>Strategic Planning that is appropriate to the new perspective</p> <p>Assignment Strategies that are united with the management in the crisis</p> <p>The training with the purpose of enabling the employees to acquire appropriate mind maps and new skills in the crisis atmosphere.</p> <p>Cooperation among the employees.</p>
Technic and Structural Management	<p>Productive crisis management team that can make a quick decision</p> <p>Revision in the budget</p> <p>To increase the learning skill of the institution.</p> <p>To create data base.</p> <p>To decrease the risks</p>
The management of Communication	<p>*Effective communication within the institution</p> <p>*Relations with the media</p> <p>*Public Relations</p>
The management of the psychological and cultural elements	<p>*To enable the institution to get new soul and dynamism</p> <p>*To strengthen the team relations</p> <p>* To remove the fear and panic</p> <p>To get the help of a specialist for the emotional and psychological reactions.</p>

Source: (Baltaş, 2002:22)

The main purpose of the crisis management to bring out institutions that can foresee the crises and separate its kinds, take effective precautions against the crisis, learn new things in many fields from this and pull itself together in a quick time (Öztürk, 2003)

The business firms that can overcome the crisis time with the least loss are not the strongest ones but the ones with the most adaptability skill. Due to this reason, the only way for them to survive against the crises is to increase their skills of struggling. In the struggle with the crisis, the development of the adaptability skill is possible only with strategic thinking and making analysis within this thought axis. (Titiz and Çarıkçı, 2001)

4.2.THE PROCESS OF CRISIS MANAGEMENT

According to Mitroff and Pearson (1993), in whatever kind the crisis is, the process of crisis management includes six schemas such as the emerging of the crisis

symptoms, preparation for the crisis and prevention of it, prevention of the damage and losses, improvement of the organizational structure, the finding out of the positive aspects of the crisis and learning. The first phase of the emerging of the crisis is the phase when the crisis symptoms emerge. This phase requires the fact that the necessary sensitivity should be given to the warnings coming from the early warning system. The phase of crisis preparation and prevention includes the activities regarding the protection of the units, departments and surroundings of the organization with the purpose of preventing the losses that the crisis may lead to. (Narbay, 2006)

The phase of preventing the loss is the phase that begins with the moment the business firm accepts that it is in a crisis and prevents the crisis losses and avoids from the crisis damages and takes precautions and responds to the crisis. The improvement of the organizational structure is the harnessing of the crisis and after overcoming it, the placement of the organization within a determined condition and a structure. In the crisis period, the relations between the business firm and its sub systems may be loosened; organizational climate and order may be corrupted. This is the phase of re-structuralizing the organization and making it adaptable to the normal environment conditions and removing the negative effects that the crisis bore. In the phase of the determination of the positive effects of the crisis, it is required that the losses should be removed and there should be new steps to help the organization make new beginnings. The positive effects should be determined and the necessary studies should be carried out for these positive effects to be transformed into the profits and benefits that will make the organization superior than its rivals.

The learning phase that is the last stage of the crisis management is effective the feedback period that included the activities such revision of the decision, precaution and applications in the period of crisis preparation and crisis period and revision of the used standard, plans and tools and getting moral messages from the crisis period; in the light of this messages, making changes in the crisis management system. (Özden, 2009)

4.3.MANAGEMENT OF CRISIS PERIOD

Crisis management evolves into new era in the moment when the extraordinary situations begin to gibe harm to the organization. To deal with and overcome the crisis, the business firms will apply various management strategies and techniques. Ensuring

customer satisfaction, creating flexible, simple organization structure that supports the creativity, spreading the democratic and participatory management philosophy, producing qualified and service may provide inconveniences during the crisis management process. (Örnek and Aydın, 2008)

It is required that when it is faced with a crisis, the problem shall be found out, the problem shall be determined within the framework of the foreseen purpose again, the current data shall be examined and the most appropriate choices shall be determined, the functionality of the solution shall be tried and the last solution shall be shaped; all these phases should be followed. If these phases weren't followed, the signals of the approaching crisis were not received, commented upon and evaluated, the reliable reactions weren't given, it is inevitable that the organization shall enter into a crisis. (Tutar, 2007). Despite all the continuing crisis management studies, crisis may not be prevented. With the breaking out of the crisis, crisis management team takes over the duty effectively. The crisis management team should carry out the following procedures respectively during the improvement period in order for the crisis not to be triggered: (Ren, 2000)

- To prevent the loss of live,
- To establish the basis substructure again and repair it,
- To establish the social activities again,
- To improve the financial losses
- To enable the emotional improvement

It is rather difficult for the management policies in normal conditions to respond to the conditions in the crisis period. Due to this reason, the application in the crisis period should be different from the normal. The business firms that don't realize this obligation and tries to solve the crisis with the working and making- decision habits of the normal conditions often fail. (Koçel, 1993)

The management of a crisis period, whatever its source is, is the responding period of the crisis that begins with the moment the crisis begins and the business firm accepts that it enters into the crisis obviously and the precautions regarding the prevention of the crisis losses and avoidance from the losses of the crisis start to be put into practice. In this phase, even if the mechanisms prior to crisis functioned effectively, it may not be possible to get rid of the crisis situation completely. The perceptions in the first

phase, the prepared plans and the current situation in the crisis period are evaluated and then the current plans, crisis team and crisis adaptation tools are revised; crisis is got under control (Özden, 2009)

Business firms have to consider the following points to become in the advantageous position in the crisis periods and conditions: (Talukan and Akturan, 2000)

- Crisis is not only a situation that shall be avoided but also it may lead to some opportunities.
- The rivalry strategies must be determined well.
- The stronger fields in the strategic rivalry must be analyzed well.
- It should not be forgotten that the international marketing is one of the best tools to be protected from the crisis.
- International strategic unions are the most appropriate way of the globalization.
- The savings within the business firm should be attached importance
- The fields with high recycle in short-term should be given priority.
- The rivals and the changes in the marketing should be watched immediately, the research facilities should be continued for this.
- Customer satisfaction should be accepted as the basic philosophy of the business firm and special attention should be paid to it.
- Long-term investments should be avoided.
- Advertisement and introduction activities should be limited, it should not be put into the background; in contrast, the advertisement and the introduction should be paid attention.
- Instead of heading for the cheap labor with the savings purposes, it should not be forgotten that the qualified and the qualitative labor is cheaper all the time.
- The defending strategies should be constituted well.
- It must be worked in cash priority rather than the sales priority.
- Instead of decreasing the production in the crisis periods, the costs should be decreased.

4.3.1. Determining the dimensions of the crisis

When the emergent situation occurs, the first thing to do is to put forward the quality and the dimensions of the situation. Searching for the one who is responsible for the problem is a waste of time. Furthermore, it may lead to discomforts. (Tack, 1994). The determination of the dimension of the crises is composed of two phases. These are; to calculate the effect value of the crisis and to prepare the crisis barometer. (Tüz, 2001)

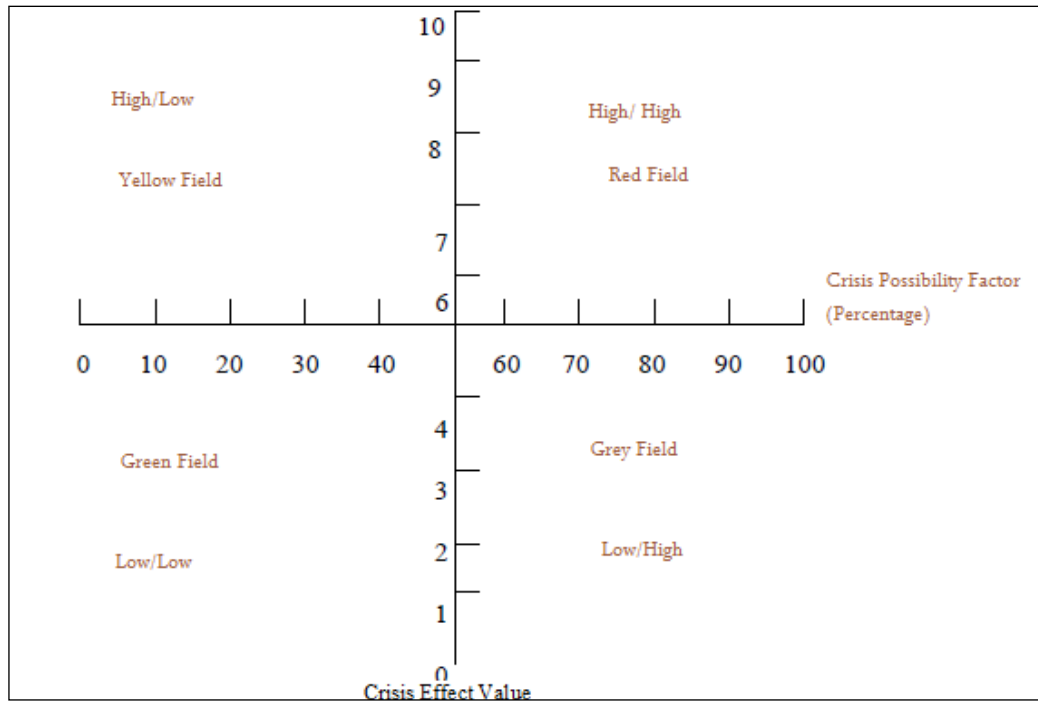


Figure 4.2: Crisis Barometers

Source: Fink, 1986:45

To prevent the problems before they are in a crisis dimension, the managers should think about the worst possibilities and develop crisis scenarios. The emerging pessimistic scenario or scenarios will be developed with the competence to see the potential crises from the danger perspective. For this, firstly, the crisis effect value stated in the vertical axis of the barometer should be determined. While the crisis effect value is determined, the values between 0 (the lowest) and 10 (the highest) are given to the following questions and then added. Five questions are these: (Fink, 1989)

- If the crisis is increasing without pausing in the way it will create a risk, to what extent can you endure?

- If the crisis is considered, what will be the dimension of the attention the government or the media will display?
- What will be the dimension of the crisis to suspend your usual activities?
- To what extent will the crisis harm your positive image on the public opinion?
- What will be dimension of the material and moral damage that the crisis will give to your business firm?

The results acquired from the given responds are added and then it is divided into five. Therefore, the value effect of the crisis will be found out. Managers can evaluate each question in multi dimensions within itself and reduce it to one value. For example, while in search of a response for the last question, firstly, a value is given to the loss that may occur in the assets of the business firm and then a value is given to the physical effects such as the stress that may occur in the employees, demoralization and the fact that the employees don't come to the work and it can be divided into two. Then, the acquired value may be included within the total. The data acquired from the early warning system is used when the crisis effect values are measured.

Secondly, in the horizontal axis, the possibility factor is calculated. The value that will be given varies between 0(it is impossible that the crisis will occur) and 100 (Certainly there will be a crisis) by percentage. While the possibility of crisis' bursting out, what kind of crises the business firm has in the department or organization basis, to what frequency the similar crises are experienced, the crises that the rivals have, the similar cases experienced in other sectors are considered. It is not an easy thing to predict. It is useful to be realistic and courageous. In which field of the barometer, the junction point of the values acquired in the crisis effect value and the axis of crisis possibility factor is, that part will demonstrate the risk the crisis has. The green field is the part where the risk of the potential crisis is the lowest. As for the red field, it indicates the most risky field where alarm bells are set off. Managers should be on alert against the types of crisis in the red field. The decision-makers should search for the ways of avoidance from this field or transforming the crisis into an opportunity before the crisis bursts out. With the constitution of the crisis barometer, the crisis shall be determined and the current situation will be put forward clearly.

Upon the crisis barometer, after the dimension of the crisis is determined, the interference dimension is calculated. Crisis effect value is defined according to the

compounds of the possibility factor and the effect value that will be determined later and interference cost compounds. According to this definition, it is determined that whether something can be done to solve the crisis or not. The first phase of solving the crisis is to define the crisis.

4.3.2. Methods of Making a Decision

Although it is suggested that the authorities should be focused on the top management, the purpose here is not to apply the model of one man. In contrast, the team work is required more than the usual. (Sabuncuoğlu, 1994) The manager, depending on the quality of the crisis subject and his /her own choice, he / she may use the methods of brainstorming, Delphi and decision conference: (Tüz, 2001)

- **Method of Strategic Thinking:** Strategic thinking is to make a decision by depending on the instinct in the crisis conditions. In the first phase of the decision, the previous experiences and instincts are united with the tangible data presented by the marketing researching and then common vision is constituted. In the second phase, within the framework of this vision, the basic strategy of the business firm in the crisis conditions is determined abstractly. Lastly, this strategy becomes abstract through steps and it is turned into practice. Strategic thinking is a method of synthesis and in this method the strategies the planners provide data and they function as a catalyze in this process of thinking. The use of the strategic thinking method in decision-making in the crisis conditions takes less time than income analysis method, and then it is more flexible and it can be applied more easily than the income analysis method.
- **Delphi Method:** This method was developed against the insufficiencies of the classical meeting method. It was criticized due to the reasons such as the use of classical meeting method in the crisis conditions, slow-processing of its decision mechanism, the fact that the people in the crisis team may affect each other's decisions as they meet face to face and the dominant person may become a psychological pressure. Delphi Method enables reaching objective decisions in the crisis conditions faster, more effective and with less effort than the meeting methods. The crisis team is required to be composed of the specialist persons to apply this method. The responds regarding the crisis problem are received in the form of a written questionnaire. The team leader compiles the responds in the

role of a coordinator. He/ she divides the responds into three groups such as high, low and medium. Medium group is generally around %80 and low and as for the high groups, they are around % 10. The reasons of the % 20 extreme (negative) ideas are asked to the related persons and they are expected to make logical expressions. Unless these explanations are made, the extreme approaches are eliminated. In the second session of the responding, the questions were made more specific than the responds of the first phase. Again the extreme responds are eliminated. These processes are repeated endlessly. However, generally, it is reached to the result in the sixth phase. It is suggested to an effective method in reaching the right decisions by predicting the events in the future objectively, in the crisis conditions.

- **Brainstorming:** The method of brainstorming that has a usage possibility in many fields to the quality control circle without developing a new product is suggested to be used to make a decision in crisis conditions. Brainstorming is a creative method that creates thoughts in the brain in the form of a storm and solves the problem. This method can be applied in the manager basis, individually or as a group in the decision-making in the crisis conditions. There are 6-12 people who are not the experts of the subject and whose thoughts are not shaped, in the group application. The group leader explains the crisis subject to the members and tells them to produce ideas quickly, and reminds them the principles of the brainstorming. In the first round, everybody puts forward his/her ideas and before the second round begins, time is given for the ideas to be cleared up. In the second round, the thoughts are shaped more. If nobody says anything, then it is passed. When the creating a thought slows down, the evaluation of what was said begins. The longest time is 30-35 minutes. It is a fast, an easy, and a creative method in decision-making in the crisis atmosphere.
- **The method of Decision Conference:** This method is a process based on the crisis specially. It is required that here should be experts related with crisis in the crisis team. In the meeting room, the board, overhead projector, slide, computer screen, the meeting seating order and decision analysis programs that were loaded to the computer and that can be used in the obscurity conditions are provided readily. The team leader guides the conference and administrates it.

He /she enables the direction of the various data and different thoughts towards decision-making. Some people may be affected from the others and be directed to the wrong decision with the instinct of being included in a certain group. The team leader orients the people who are mistaken and have the assisting role in helping them make the right decisions. Due to this reason, the team leader is required to get training in psychology beforehand. According to the method of decision conference, making a decision in the crisis conditions develops according to the following process:

- Team members begin to discuss the specialty subjects with the purpose of putting forward the structure of the problem. The discussion is kept alive constantly.
- When the structure of the problem reaches to certain condition, its definition is made and the model is established. In the phase of establishing a model, it may be behaved according to the instincts and also it may be benefited from the decision analysis methods.
- After the decision model is prepared, the evaluation analysis of value and /or possibility is carried out, it is developed as decision advice, revised, the analyses of sensitivity and putting into practice are done, the decisions are resulted and the written application plan is prepared and the application of the strategies developed concerning the crisis begins.

4.3.3. The Harnessing the Crisis

One of the effective ways to harness the crisis is to test the prevention and preparation mechanisms constantly in their place. Prevention and preparation mechanisms may reveal any weakness sign actively. Crisis management team should be responsible for revealing and determining the weakness, wherever it is. If the early warning systems are not followed systematically, prevention and preparation mechanism will not function. This process includes both the preparation process against the emerging crisis and the conversion process of the crisis to another side, with the purpose of harnessing the crisis. If this is not done, the previous problems in the structure and the processes of the organization begin to grow and it becomes impossible to manage the crisis. (Tutar, 2007) The management and the employees should

cooperate in the adoption and application of the following three manners commonly in the institution and individual level to harness the crisis: (Baltaş, 2002)

- To maintain the current system,
- To run the risk of time and financial losses,
- To create a value from the crisis and create an opportunity.

Harnessing the crisis is possible for the crisis that can be harnessed and the losses of which can be limited; namely, that can be managed. Achievement of this depends on the fact that the crisis management team has the required knowledge and the skill. (Rosenthal and Pijnenburg, 1991) In this process it is required that the type of crisis type should be determined, the crisis should be harnessed so that it can be eliminated, the effects of it should be reduced so that the transformation to the balance condition should be achieved (Tutar; 2007) and the strategy /strategies regarding the struggle with the crisis should be determined.

4.3.4. Financial Management in Crisis Period

The first one of the basic sources of the occurring crisis in the business firms is the fact that the financial structure of the business firm hasn't been designed and run in harmony with the purpose and targets of the business firm, working capacity, production and marketing power; in other words, the inadaptability between the financial subsystem and other running subsystems. The financial subsystem is the blood circulation system of the business firm and it feed the business firm and it helps the firm to survive. The fact that the business firm is not affected from the crises resulted from the external factors except for the catastrophes in real depends on the fact that whether the business firm has a strong financial system or not. That is, the significant reason why the business firm emerges into a crisis is that the financial structures are insufficient. Even if the crisis is resulted from other reasons, the variety of the tools and methods that will be applied against the crisis, their resistant strength against the crisis and overcoming of the crisis is in parallel with their financial structures. (Özden, 2009)

In the crisis period, the organizations are required to increase their sales activities. To survive in the crisis period, the business firms should leave the profit aside, have a loyal relationship with their customers, strengthen the distribution canals and get in to the market with working in low profit instead of stopping the production and closing. In the crisis, the priority should be given to surviving, not to profit. It shouldn't be

forgotten that one of the most important elements that lead the business firm to the crisis is the financial insufficiency. Due to this reason, the financial management, especially in the crisis periods rather than the usual periods, the financial structure of the business firm is required to be updated in daily, weekly and monthly basis everyday and followed by the managers.

According to Özden (2009); the place of the financial management process doesn't change basically in the preparation period for the crises and the crisis period. Before the crisis period, the financial management gains importance in strengthening the financial structure of the business firm and toward the preparation for crisis; whereas, in the crisis period, it gains importance in avoiding from the problems of cash difficulty and for the treatment. What is more, making a performance evaluation related with the firm, finding out the problems and evaluating them, developing politics and solutions, making an application inspection are among the duties of the financial management. Also, development of the performance indicators related with all the functions by improving the business firm constantly and with this strengthening the financial structure of the business firm are the duties of the financial management. Two basic principles in the cash management that is the function of the financial system in the crisis period; not to get into debt and remain liquid. The politics and its tools that will be applied in the crisis period of the financial management can be classified under two titles. These are the tools that increase the cash inflow and decrease the cash outflow.

- The tools that will increase the cash inflow:

- *Creating new markets and job opportunities
- *Eager chase of the receivables, the encashment of the delayed and suspicious loans
- *Increasing the ability of external barrowing
- * The application of the shareholders for additional capital injection
- *Sales of the securities
- *Sales of a real estate
- *Sales of the fixed assets
- *Getting a new partner
- *The tools that will decrease the cash inflow,
- * Limiting and delaying general operating expenses
- *Closing the unproductive branch offices,

- * Transference of the workplace,
- *Efficient management of tax and insurance payment
- *Limiting the personnel expenses and delaying payments of bonuses.
- * Decreasing the personnel,
- *Delaying the payments of vendors,
- *Changing the instruments for prolonging the maturities of debt,
- *Outsourcing
- *Management of currency position with regard to arbitrage possibilities with the local currency and foreign currency.
- * Delaying the investments in a ceasing way.
- * Purchasing the obligatory fixed assets through financial leasing.

4.3.5. Developing a Crisis Period Personnel Policy

The most significant feature of the crisis period personnel policy is the change expectations on the crisis manager and staff. The crisis manager has a difficult and a significant task such as fostering the cooperation corrupted in the crisis again. The crisis manager is required to think differently than the usual conditions and behave flexibly toward the crisis conditions with a specialist approach. The current manager may behave wrongly by being in panic with the fear that he/she will be unemployed. If the crisis is in a significant dimension, reaching success with the current manager may be difficult. (Tüz, 2001)

However it is usual periods or in crisis periods, the most important capital that the business firm need is the human resources. It may be impossible for a business firm that cannot motivate its human resources to prevent the crisis from becoming deep. Due to this reason, the employees should be informed about the crisis first of all. It may be possible to motivate the employees who are informed and who are enables to trust the management.

In the crisis conditions, creativity and dynamism is important. For this reason, it is required that the organization climate shall be appropriate to the creativity, the positive atmosphere shall be protected and the organization members shall be motivated. The dynamism and a happy workplace atmosphere depends on the motivation of the employees. With the purpose of motivation, an atmosphere of participation in the decision and solution of the problem may be created. In this way, the applications in the

crisis period will be easier, the ability to adapt to the subjects and the level of the skill will increase, the creative aspects will be enabled to reveal. On the other hand, rewarding and encouragement programs based on the creative thinking and suggestions may be developed with effective and hard working in order to be used in the crisis periods.(Tüz, 2001)

4.3.6. Encouraging the Running in the Crisis Period

With the purpose of easing the running in the crisis period and enabling the decision mechanism function fast, it is appropriate that there will be a central structuring in the business firm. It means lessening the transference of the authority and intensifying the authority in the top management. Harnessing the course of the events and limiting them are required. One of the leading and complicated aspects of the crises is that they branch out and they often need a leader, who knows what he/she is doing, who is skilled and strong. (Tack, 1994)

For the running to be successful in the crisis period, the following factors need to be applied: (Regester, 1989)

- To improve the morale of the personnel is the prerequisite of the success. With this purpose, a policy that puts the blame on the people should not be followed.
- It is necessary to be ready to make a decision under stress.
- The unexpected should be expected and it should be acted with the thought that nobody will support.
- It is beneficial to update the relations with the media.
- Business firm center should be contacted constantly for the developments.
- The people who want to leave the business firm should not be dealt with. It is appropriate to let them go.

In the crisis, another important subject in terms of running is the personal difference among the organization members. Some persons may have the role of supporting the management in the crisis periods. Some persons may know the crisis conditions, they may be in a tendency to prevent the management and be a star. A careful manager eases the management by developing different behaviors appropriate for the personalities instead of behaving towards everyone equally. (Tack, 1994)

4.3.7. Preparing Crisis Communication Plan

The most appropriate time to begin the public relations study in terms of a crisis is the time when there is no crisis and there is the possibility of developing a good faith. It is necessary to gain trust when the profits are high, while the development is going well, when future is regarded as promising, when there are strong relations with the shareholders. With this purpose, the relationships with the media should be constant and healthy, the reliability of the firm should be kept high and the it should be easy for the media to reach the management of the business firm. In terms of public relations, a healthy communication should be enabled and the union of the business firm with the public opinion should be fostered. (Fink, 1986).

As the business firms sow in the usual times, so shall they reap in the crisis periods? In the crisis periods, the business firm will be in need of the media to express themselves well to the public opinion.

There are seven basic dimensions of the crisis management in the communication: (Özden, 2009)

- The activities
- The ones affected from the crisis
- Trust
- Behavior
- Professional Expectations
- Ethics
- Learnt lessons

Acting according a communication plan before the crisis and during the crisis prevents the corruption of the reliability of the business firm. To prevent this reliability, urgent and fast precautions should be taken. While the fire is intended to be extinguished in the first phase, it is useful to apply the communication plan that will follow these basic policies: (Pincus, 1986)

- Urgent damage analysis: Damage failure is determined through the urgent communication between the administrative body and the senior managers of the public relations, law, finance departments and the other departments.
- Developing Situation Sceneries: It means discussing by considering the possibilities with their all dimensions instead of ignoring some of the things in

the crisis condition. It means making analysis according to the worst and best conditions.

- **Commercial Situation Works:** When the things related with the crisis begin to be uttered, the committee of damage analysis should maintain the support by communicating with the partners as a security policy.
- **Informing the media:** Media interview, media conference or a detailed media bulletin should be prepared. One of this should be selected according to the feature of the crisis and the communication plan should be announced to the media.
- **Informing the employees in the business firm:** All the employees of the business firm should be provided with the messages regarding the crisis. A person in charge of the media may not reach the top management and may ask for the advice of the general director. The general director is required to be informed of the crisis process to convey the right information.
- **Determining the information flow channel:** All media members want to reach to the top management directly as a tendency. This tendency is required to be answered. However, the fact that the top management responds to some questions through telephone may be limited and wrong. If the urgent information center is established, it is better to give information via this channel. If this center doesn't exist, the public relations officer or the spokesman of the crisis management team should maintain the relations with the media.

4.3.8. Preparing the Crisis Action Plan

In the crisis action plan prepared within the framework of crisis management plan, how the possible crisis conditions will be evaluated and perceived, the actions concerning by whom and what will be done during the crisis should be included in a clear and a detailed way. If there is crisis action plan including these information and procedures, crisis management may be realized effectively during the crisis period. (Özden, 2009)

In the plan, there should be:

- Which situations will be regarded as crisis symptom in the evaluations concerning the firm functions,

- How the perception and the symptoms or the first crisis news will be reported to whom and how,
- Who will apply for which public officials in the catastrophes or criminal events,
- Who will deal with the media by changing off in the first day of the crisis,
- In which situations, the firm financial and law consultants and lawyers will be contacted,
- How will the syndicate managers or employee groups be contacted with against the protests in the moment when there are actions and dismissal from the work due to the crisis that will affect the employees,
- In which situations, by whom a media meeting will be arranged,
- When, how and by whom will the families of the mistreated person or people be contacted,
- Whether or not any part of the work place will be closed,
- In which situations a mobile office or crisis communication center will be established,
- By whom and how will the experienced damage be found out,
- By whom and how will the related persons be contacted with,
- The precaution plan related with the production, finance and marketing of the business firm should be placed separately.

5. CASE OF ŞEKERBANK

5.1.HISTORY

Sekerbank T.A.S. was established in 1953 as the "Sugar Beet Cooperative Bank" in Eskisehir, Turkey. Bank started its activities by pooling the modest savings of the sugar beet growers belonging to the cooperatives. In 1956 the Bank relocated its headquarters to Ankara and changed its name to Sekerbank. In 1980's, Bank focus on commercial banking especially foreign trade and corporate banking. Sekerbank has two funds; one of them is Sekerbank Pension Fund and the other one is Sekerbank Personnel Social Security Foundation.

Bank is transformed to full-service private bank in 1997. In 2002, Bank initiated to change from a traditional commercial bank into a multi-channel and segment focused applications. This was followed by the change of its headoffice to Istanbul in 2004. In June 2006 the Bank's two pension funds signed an agreement with TuranAlem Securities ("TAS") of Kazakhstan, a fully owned subsidiary of BTA Bank for the sale of 33,98% of the Bank's shares. This partnership was successfully concluded in March 2007. Distribution of the remaining shares: 33, 98%, Pension Fund of the Bank; 31, 96% Public; and 0,08% Private Sugar Factories and Beetroot Cooperatives and Union.

Sekerbank is also a bank with 6 financial subsidiaries; Şeker Yatırım, Şeker Leasing, Şeker Factoring, Şekerbank Kıbrıs, Şeker Mortgage Finance, Şekerbank International Banking Unit in consolidation.

Today, Sekerbank has a wide branch network with more than 50 years of presence which gives the Bank a significant advantage to be a major commercial and a retail player in Turkey.

Şekerbank gives importance to social responsibility. Şekerbank has regulated the principles related to environment and social sensitivity policy with a regulation.

Bank has materialized its national and international cooperative efforts in the field of energy saving and efficiency, one of the serious items of the world agenda in the recent years, with its product "EKOkredi; Energy and Labour saving credit". Aimed at developing awareness on energy efficiency through the protection of environment and

natural resources, EKO kredi was introduced by Şekerbank to the public in May 2009. (WEB_14, 2011)

According to the strategic business plan, Bank is analyzing the new platform opportunities for social works and also ways to enhance the ongoing operations filtering by risk management system.

In Sekerbank, Risk Management System is used to take decisions and execute the structure, which is formed with the aim of maintaining a system for identifying, measuring, monitoring and controlling of risks to which the Bank may be exposed, through the establishment of strategies and policies as well as risk limits and applications in order to control and if necessary, to alter risks versus earnings structure within the Bank's cash flows including both the level and the quality of its activities. (WEB_14, 2011)

5.2.RESEARCH

5.2.1. The Purpose, Scope, Method and Constraints of the Research

The main purpose of this study is the evaluation of the exposure level of Şekerbank from the crisis qualified as "Global Economic Crisis" in the national and international press, which affects the activities of the organizations to a great extent and the evaluation of what are the administrative and organizational policies applied in this term and crisis management strategy from the perspective of Unit Directorates. Within the scope of the research, a questionnaire was shared with the Directorates of 30 units of Şekerbank and an evaluation was carried out based on the responses given to these questionnaires.

The data of the research was compiled with the questionnaires composed of 14 questions that are constituted following the literature review. There are statements concerning the demographic features in the first part; the second part is composed of the statements related with the administrative activities; the third part emphasizes the activities of the institution during the crisis period and the motivation of the employee; the fourth part underlines the policies applied during the crisis and the taken measures. The prepared survey questionnaire was sent to the directorates of Unit through electronic mail. The study was limited with the Bank Unit Directors. In conclusion, totally, 28 (% 93.3) out of 30 questionnaire was completed.

It was assumed that the managers participating in the survey perceived the questions of questionnaire and interview and answered correctly. Also it was assumed that while the managers whose opinions were asked were answering the questions of the questionnaire and interview, they behaved in an objective way.

While the findings acquired in the study, Statistical packet program was used for the statistical analyses. While the study data were being evaluated, definitive statistical methods (Frequency, Percentage, Average and Standard Deviation) were used. In the hypothesis tests, as for the comparison of the qualitative data, Person Ki- Kare test was used. The results were evaluated as %95 in the confidence interval, the significance was evaluated as two-sided in $p < 0,05$ level.

5.2.2. The Findings of the Research

Table 5.1: Distribution of the Working Process in Bank

	Frequency	Percentage (%)
Less than 1 year	2	7,1
1-3 years	8	28,6
4-10 years	11	39,3
More than 10 years	7	25,0
Total	28	100,0

2 of (%71) of the bank managers participating in the research have been working in the bank less than 1 year, 8 (%28,6) of them have been working for 1-3 years, 11 (%39,03) of them have been working for 4-10 years, 7 (%25,0)of them have been working in the bank for more than 10 years.

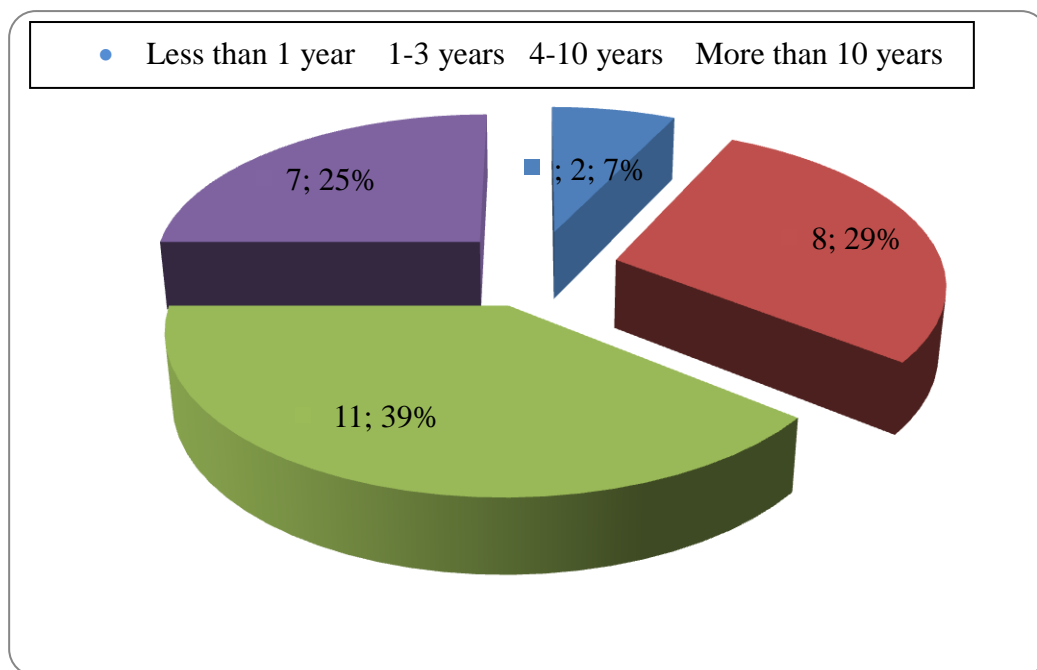


Figure 5.1: Period of Working in Bank

Table 5.2: Distribution of Education Level

	Frequency	Percentage (%)
Bachelor Degree	14	50,0
Master Degree	14	50,0
Total	28	100,0

14 (%50,0) of the bank managers participating in the research are in the graduate education level,14 (%50,0) of them are in level of post graduate and over.

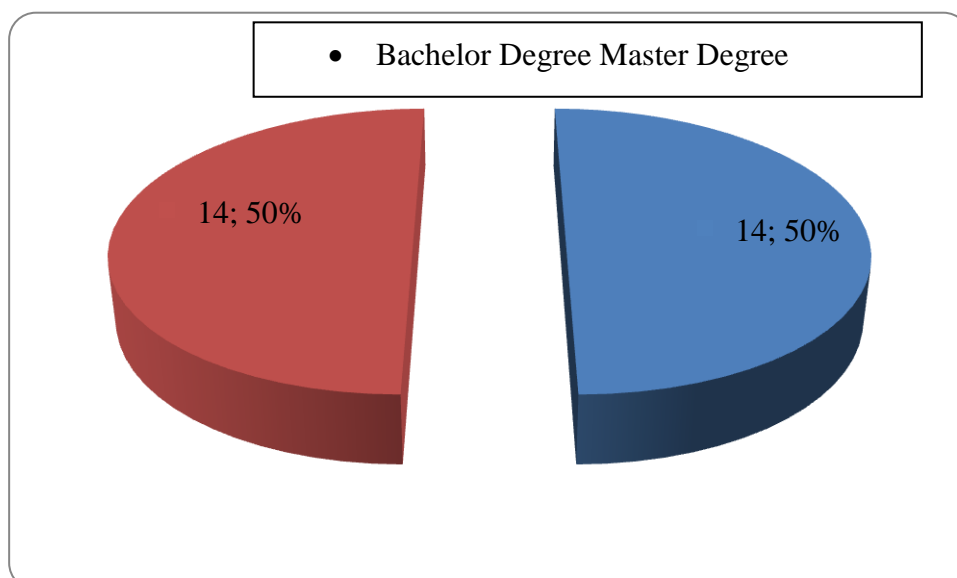


Figure 5.2: Education Level

Table 5.3: Distribution of Work Load Level in the Institution with the Crisis

	Frequency	Percentage (%)
It increased	3	10,7
It decreased	15	53,6
There is no change	10	35,7
Total	28	100,0

3 (%10,7) of the bank managers participating in the research responded as “It increased”, 15 (%53,6) of them responded as “It decreased,” 10 (% 35,7) of them responded as “There is no change.” The results show that crisis effected the work load negatively in the bank

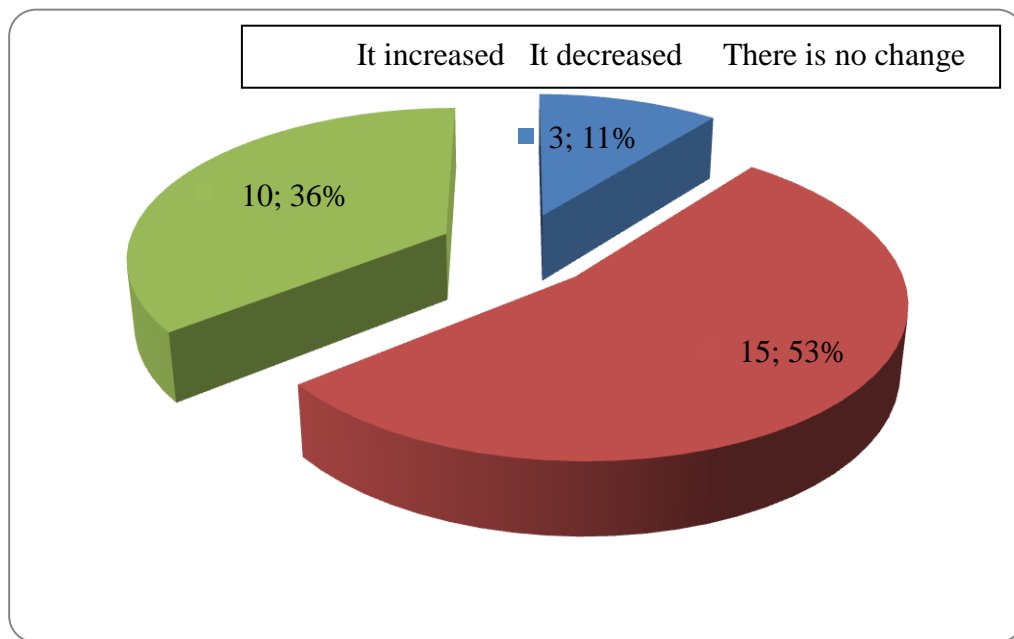


Figure 5.3: Distribution of Work Load Level in the Institution with the Crisis

Table 5.4: The Distribution of the exposure level of the banking sector from the crisis

	Frequency	Percentage (%)
Positive	2	7,1
Negative	26	92,9
Total	28	100,0

2 (%71) of the bank managers participating in the research responded as “Positive”, 26 (% 92,9)of them responded as “ negative”. This shows that the unit managers are sensitive against the effects of crisis and follow the activities around.

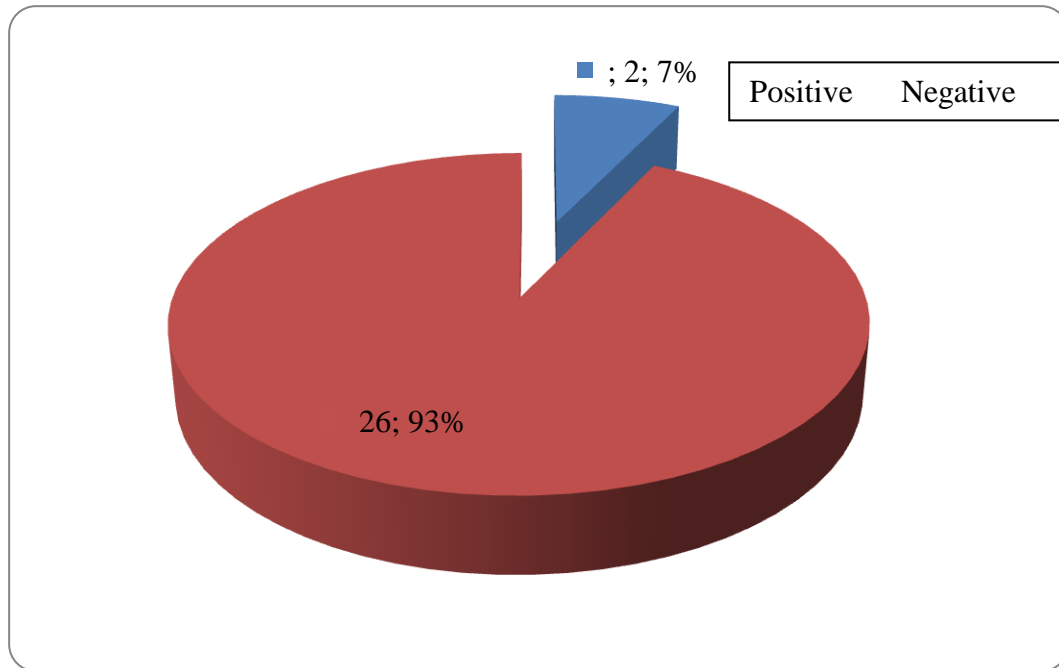


Figure 5.4: The Exposure Level of the Banking Sector from the Crisis

Table 5.5: The Distribution of the exposure Level of the bank customer potential during the crisis

	Frequency	Percentage (%)
It wasn't affected	18	64,3
Our client number decreased	10	35,7
Total	28	100,0

18 (%64,3) of the bank managers participating in the research responded as “ It wasn't affected”, 10 (% 35,7) of them responded as “ Our customer number decreased.”

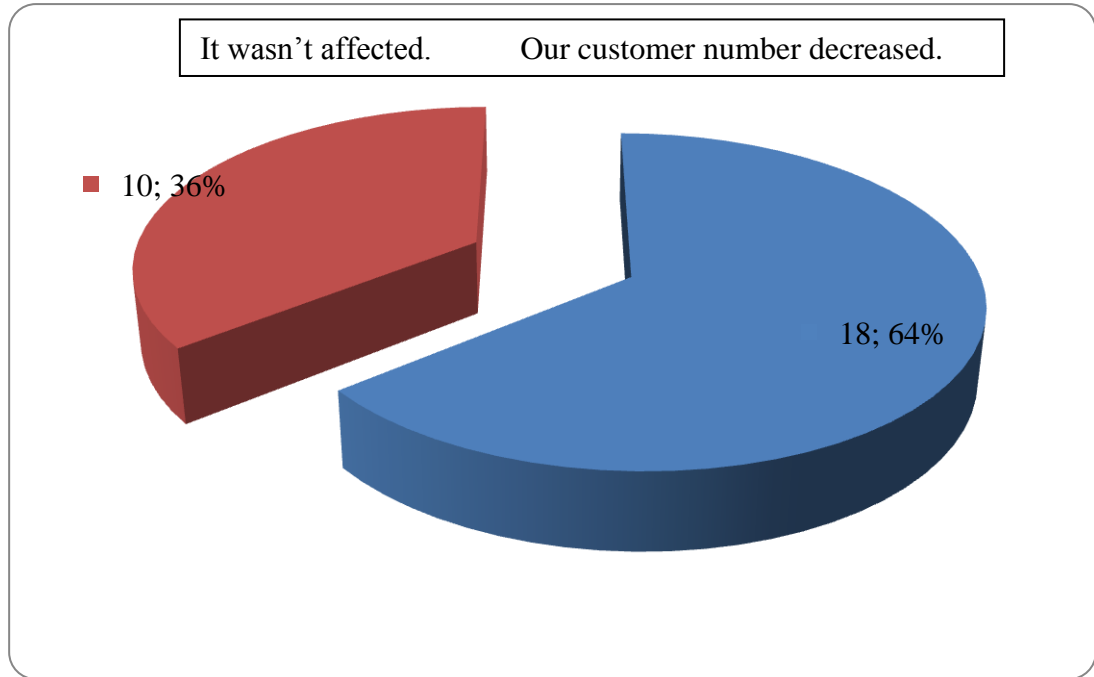


Figure 5.5: Exposure Level of the bank customer potential during the crisis

The replies show that Şekerbank has a very solid customer base who do not leave the bank even there is a crisis environment.

Table 5.6: Distribution of the success levels of the national measures in the solution of the crisis

	Frequency	Percentage (%)
Successful	18	64,3
Not successful	7	25,0
I have no idea	3	10,7
Total	28	100,0

18 (%64,3) of the bank managers participating in the research responded as “Successful”, 7 (%25,0) of them responded as “Not Successful” and 3 (%10,7) of them responded as “ I have no idea”. The units Managers find the national measures were successful for recovery.

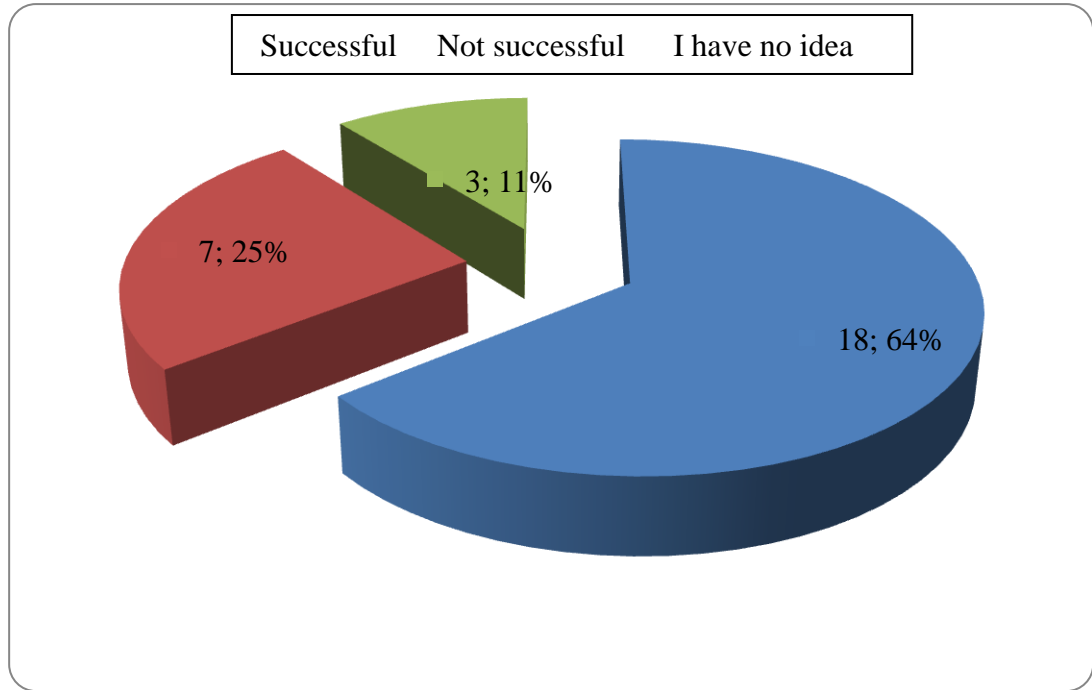


Figure 5.6: Success Levels of the National Measures in the solution of the crisis

Table 5.7: Distribution of the exposure situation of the bank activities as the global crisis is considered in comparison with November 2000 and February 2001 crises

	Frequency	Percentage (%)
There is no change	3	10,7
I have no idea	7	25,0
Positive	16	57,1
Negative	2	7,1
Total	28	100,0

3 (%10,7) of the bank managers participating in the research responded as “there is no change”, 7 (%25,0) of them responded as “I have no idea”, 16 (%57,1) of them responded as “Positive” and 2 (%7,1) of them responded as “Negative.”. This shows that 2008 crisis did not hit the banking sector in Turkey when compared to financial disaster of 2000 and 2001. In reflection of this situation, it shows that the loyal customer base of Şekerbank confirmed their behavior.

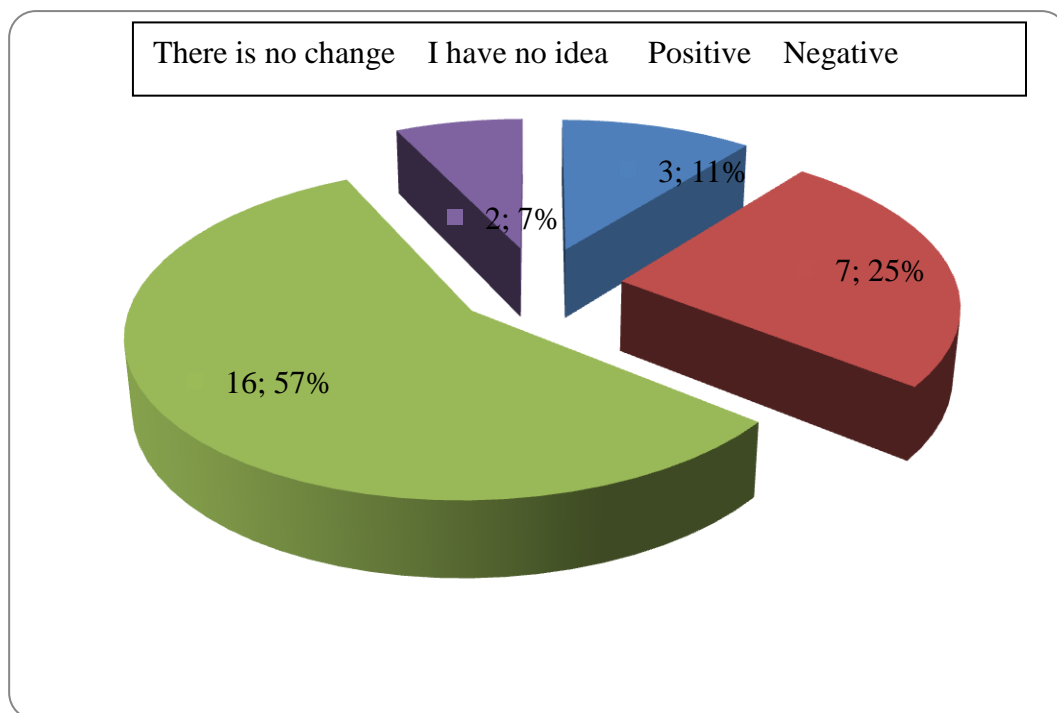


Figure 5.7: Distribution of the exposure situation of the bank activities as the global crisis is considered in comparison with November 2000 and February 2001 crises

Table 5.8: Administrational Activities during the Crisis

	Yes		I have no idea		No	
	Frequency	%	Frequency	%	Frequency	%
Understanding Level of the Approaching Crisis	25	89	2	7	1	4
The fact that the institution is cautious about the crisis	23	82	3	11	2	7
The level of the crisis in creating opportunities in terms of the institution	20	71	4	14	4	14
The possibility of realizing the subjects in which there is insufficiency during the crisis	9	32	16	57	3	11
The flexibility level of all the units in the institution against the crisis	14	50	5	18	9	32
Making administrational mistakes that may be regarded as significant during the crisis	1	4	3	11	24	86
The increase level in the number of the inta- organizational meetings during the crisis	7	25	4	14	17	61
The level of the crisis' affecting the long- term plans of the institution negatively.	16	57	8	29	4	14
The situation of increasing the advertisement and promotion expenses during the crisis.	2	7	10	36	16	57

25 (%89,3) of the bank managers participating in the research responded to the clause of “ Understanding level of the approaching crisis” as “ Yes”, 2 (%7,1) of them responded as “ I have no idea”, 1 (% 3,6)of them responded as “ No”.

23 (%82,1) of the bank managers participating in the research responded to the clause of “ The Intuition’s being cautious against the crisis” as “ Yes”, 3 (%10,7) of them responded as “ I have no idea”, 2 (%7,1) of them responded as “ No”.

20 (%71,4) of the bank managers participating in the research responded to the clause of “ Level of Creating Opportunities of the Crisis in terms of the institution” responded as “ Yes”, 4 (%14,3) of them responded as “ I have no idea” 4 (%14,3) of them responded as “ No1.

9 (%32,1) of the bank managers participating in the research responded to the clause of “ Realizing the subjects in which there are insufficiencies during the crisis” as “ Yes, 16 (%57,1) of them responded as “ I have no idea” and 3 (% 10, 7) of them responded as “ No.

14 (% 50,0) of the bank managers participating in the research responded to the clause of “ Flexibility level of all the units in the institution against the crisis” as “ Yes”, 5 (%17,9) of them responded as “ I have no idea”, 9 (%32,1) of them responded as “No”.

1 (% 3,6) of the bank managers participating in the research responded to the clause of “ Making Administrational Mistakes that may be regarded as significant during the crisis” as “ Yes”, 3 (%10,7)of them responded as “ I have no idea”, 24 (% 85,7) of them responded as “ No”.

7 (%25,0) of the banking managers participating in the research responded to clause of “ The increase level in the intra-organizational meetings during the crisis” as “ Yes”, 4 (%14,3) of them responded as “ I have no idea”, 17 (%60,7) of them responded as “ No”.

16 (% 57,1) of the bank managers participating in the research responded to the clause of “ The level of the crisis’ affecting the long- term plans of the institution negatively.” As “Yes”, 8 (%28,6) of them responded as “ I have no idea”, 4 (%14,3) of them responded as “ No”.

2 (% 7,1) of the bank managers participating in the research responded to the clause of “The situation of increasing the advertisement and promotion expenses during the crisis.” As “Yes”, 10 (%35,7) of them responded as “ I have no idea” , 16 (% 57,1) of them responded as “ No”

Table 5.9: General Activities and Motivation during the Crisis

	Yes		No		Partially	
	Frequency	%	Frequency	%	Frequency	%
Experiencing of more stress and problem due to the obscurity	9	32	17	61	2	7
Lack of communication within the bank	3	11	22	79	3	11
Decrease in the motivation level	5	18	14	50	9	32
Carrying out more meetings	8	29	16	57	4	14
The increase in the level of the managers’ making decision and their initiative	5	18	21	75	2	7
The desire of the employees to work more	4	14	13	46	11	39
The fact that the employees attach more importance to some rules and regulations.	10	36	6	21	12	43
The corruption level of the decision making process.	2	7	22	79	4	14

9 (%32,1) of the bank managers participating in the research responded to the clause of “Experiencing of more stress and problem due to the obscurity” as “ Yes”, 17(%60,7) of them responded as “ No” and 2 (%7,1) of them responded as “ Partially”

3 (%10,7) of the bank managers participating in the research responded to the clause of “ the Corruption of the Communication within the Bank” as “ Yes”, 22 (%78, 6)of them responded as “ No”, 3 (%”10,7) of them responded as “ Partially”

5 (%17,9) of the bank managers participating in the research responded to the clause of “ Decrease in the level of the motivation” as “ Yes”, 14 (%50) of them responded as “ No”, 9(%32,1) of them responded as “ Partially “.

8 (%28,6) of the bank managers participating in the research responded to the clause “ The fact that more meetings will be carried out “ as Yes”, 16 (%57,1) of them responded as “ No”, 4 (%14,3) of them responded as “ Partially”

5 (%17,9) of the bank managers participating in the research responded to the clause of “ Increase level in the decision-making process and initiative of the managers” as “ Yes”, 21 (%75,0) of them responded as “ No”, 2 (%7,1) of them responded as “ Partially”.

4 (%14,3) of the bank managers participating in the research responded to the clause of “ The desire of the employees to work more” as “ Yes”, 13 (%46,4) of them responded as “ No” 11 (%39,3) of them responded as “ Partially”.

10 (%35,7) of the bank managers participating in the research responded to the clause of “ The fact that some of the employees attach more importance to some rules and regulations” as “ Yes”, 6 (%21,4) of them responded as “ No”, 12 (%42,9) of them responded as “ Partially”

2 (%7,1) of the bank managers participating in the research responded to the clause of “ Corruption level of the decision process” as “ Yes”, 22 (%78, 6) of them responded as “ No”, 4 (14,3) of them responded as “ Partially”.

Table 5.10: Evaluations concerning the Applied Policies in the Institutions during the crisis

	Yes		No		Partially	
	Frequency	%	Frequency	%	Frequency	%
Institutions' evaluation of the branch Office number	5	18	17	61	6	21
Institutions' evaluation of the personnel number again	9	32	13	47	6	21
Postponing the credit payments	15	54	7	25	6	21
Level of creating new attractive offers for the customers in the services	16	55	8	29	4	14
Decreasing the assets	9	32	19	68	0	0
Considering the new investments	8	29	15	54	5	17
Providing credits from the foreign sources	3	11	20	72	5	17
Searching for new domestic and foreign possibilities	12	43	9	32	7	25
Making revisions in the services	11	39	9	32	8	29
Increase level of the Works related with the risk management	25	89	0	0	3	11
Putting Limitations in some credits	22	79	4	14	2	7
Making credit markets with the low interest rates.	12	43	11	40	5	17
Planning level of dismissals from the work due to crisis	5	17	20	72	3	11
The fact that there were dismissals due to the crisis	7	25	18	64	3	11
The limitation of the fees and auxiliary payments of the employees.	10	36	12	43	6	21
Limitation level in the expenses concerning the education of the employees.	11	40	9	32	8	28
Making a performance evaluation more often.	7	25	16	58	5	17
Interrupting level of the career developments such as promotion and advancement	14	50	6	21	8	29
The increase level in the work hours	4	14	16	57	8	29
Making new regulations in order to increase the service quality	13	46	7	25	8	29

In Table 5.12, there are evaluations concerning the applied policies in the institutions during the crisis period. Within this context, %61 of them stated that there is not a possibility for the institution to evaluate the branch Office number, similarly, %47 of them stated that they did not evaluate the personnel number of the institution, %68 of

them stated that nothing was done to decrease the assets, %72 of them stated that credits were not provided from the foreign sources, %58 of them stated that evaluation of performance wasn't carried out more often, %21 of them stated that no interruption was made in the career developments such as promotion and advancement and %57 of them stated that work hours were not increased, and this indicates that there is no negative exposure concerning the policies within the organization. Especially for the employees, there is no negative evaluation, there is no significant change concerning the process within the institution. It is seen that there are some precautions taken due to the decrease in the number of the clients due to the clients as seen in the table. The opinions are shown in the table, these are concerned with the participating in the questions about the postponing of the credit payments (%54), creating new attractive possibilities for the customers (%55), making revisions in the services (%39), and making new regulations to increase the service quality (%46). Two major points that attract the attention in the table are the fact that the participants stated that there is a risk in the studies concerned with the risk management in the rate of % 89 and there is a limitation in the limitations of some credits. This situation shows us that the institution is cautious about the crisis.

5.2.3. Statements of the Chairman and the Board of Management

2001 economic crisis has significant effects on the re-structuring process of Şekerbank and its reaching to the growth numbers of today. 2001 economic crisis was an exam for Şekerbank like the other banks in Turkey.

Şekerbank followed a track such as turning this crisis into an opportunity. Internally, it followed a way of restructure. Regulations related with the banking activities were carried out. Open communication means which is one of the institutional values of the bank was chosen and the transparency prioritized. Thus, Şekerbank chairman Hasan Basri Gökten expressed the applied management type like this:

“2001 economic crisis was an exam for us. Indeed, we turned this crisis into an opportunity. Therefore, we entered in the process of re-structuring. We started the re-structuring in terms of organization and work flow. In those years, I tried to constitute an open management type. For instance; I allocated one day of week to my employees. In this way, everyone who has a problem could communicate with me. In these conversations, I was learning what the deficiencies are and what the things are that do not function well in the system. The fact that whether the worker understands the

running of the system or not very significant. I ask my every employee to see the events from a questioning perspective. It is required that everybody feels himself/herself as a manager of the bank. One should be researcher, interrogator and transparent. Decision-making processes should be constituted together. Giving a common answer to everything like an orchestra which moves with one voice is required and we should carry out things by sharing harmoniously. In conclusion, we began our journey of institutional management in the password of these concepts. (WEB_14, 2011)

1- How is the financial table in the beginning of the crisis?

The fact that Şekerbank's financial indicatives are in a good condition and it experiences a crisis with a good financial table constituted an advantage and it continued to grow in the crisis period. The financial table in the crisis period is as follows:

Table 5.11: Şekerbank's Financial Table In The Crisis Period

CHOSEN FINANCIAL INDICATIVES (thousand YTL)	2008	2007	2006
TOTAL ASSETS	8.041.338	6.088.402	4.006.314
TOTAL CREDITS (NET)(*)	4.799.814	3.614.433	1.995.215
SHAREHOLDER'S EQUITY	975.271	864.789	436.951
GENERAL DEPOSIT(*)	5.931.571	4.155.066	3.046.909
PRETAX PROFIT	181.744	148.911	76.282
NET PROFIT	144.307	122.861	52.236

2- Could you explain the strategy that is implemented in the crisis period?

It chose construction, tourism, agriculture and food as the target sectors within the framework of the strategy plan in the Global Crisis Period. The bank aimed to spread with the facilities of active marketing concerning the SMEs and credit facilities and with the micro credit project that supports the production for the guilds. (Uluşahin) Şekerbank experienced the crisis in 2008 with this strategy and it continued to grow with its experience of 55 years even in the crisis period.

a. Experience of 55 years and Power that has come with the controllable structure

In 2008 which coincided such a challenging period of the world economy, Şekerbank celebrated its 55. Year. Our bank that gets the power it has today from the

rooted experience of 55 years was equipped with the instruments that will turn the crisis conditions into an opportunity with an experienced management staff, values, strategies and new partnership structure. In parallel with the process that is getting globalized and minimalized, our Bank dealt with this crisis with its manageable, controllable well-established structure. (WEB_14, 2011)

b. Stabilizing the savings and the Investments...

Şekerbank headed for more production and the savings in the following periods of the crisis. In addition this, it had a tendency to orientate the cash flow with the conscious crediting policies and continue to grow by paying attention to the balance sheet. (WEB_14, 2011)

c. Experienced and Consistent Staff

Şekerbank was able to create opportunities from the difficulties it experienced every time and took lessons from this situation. In these situations, it got the support of relationships with its customers.

According to Uluşahin, Şekerbank that is always stepping towards the best with the changes it had in the re-structuring periods, has an experienced and consistent management staff and self-sacrificing employees that support the bank. She summarized this with his statements given below:

“...We will continue to be the bank that supports the production and gives more significance to the savings.”

When we look back on, we see that 2006 and 2007 are the years when the least savings is done in the history of the republic. This table which is the continuation of the system that is definitely based on the tendency to consume in the whole world and obtaining money that pushed the humans to the background expresses the way that has brought the world into the global crisis.

Even if we become a consumption based society in the last years, we will act with the sense of savings which is significant part of the social culture of Anatolia, we will support the production and we will continue to be aware of the savings. We will be aware of our features that make us different and powerful and we will continue to be the bank that Works in high efficiency in 2009, as well.

We are bank that has experienced the years without getting hurt by the years which are even harder than 2008. Today, we are happy that we had good results in 2008 that was the beginning year of the crisis.

“We grew in the crisis, we will continue to grow in 2008, as well.”

Our bank which has been of the most significant actors of Turkish banking system since 12 October 1953, the date of foundation, entered into the period of re-structuring and change. As the continuation of the world system that was established in the first half of 1990s. This period of change in which we have been since those days went on through developing more forward and towards the better.

In the last 15 years, our active size increased 9 folds, our shareholders' equity increased 17 folds and our profit increased 4 folds. Our own portfolio has doubled 13 folds. The number of our branch offices which was 114 in the beginnings of 1990s has become 250 today. The number of our employees which was in 2 thousands in 2001 is approximately 4 thousand today.

We also had hard times in our recent history which is full of the numbers we have summarized. However, we overcame every difficulty by getting stronger. We have no doubt that we will have better opportunities with the strength of our financial structure and the power of our relationships with the customers in this period in which we need to be more choosier, more careful and more diligent than usual. Şekerbank, as a group that is blended with its all partnerships and its employees, has the potential and determination to beyond its current good status that it has constituted from the past till now with the advantage of having an experienced and consistent administration.

On behalf of our administrative body, I thank our customers who all the time supports us regarding the current situation of our bank, I thank all people of Şekerbank for their contributions to our bank that they made with their devoted work, I thank our correspondent banks which are our work partners and our partners that do not deny their support even in our hard times, I commend. (WEB_14, 2011)

d. The Presence of the Structures that control the risk

Attention was paid to the risk factors before the crisis and during the crisis period. Risk management tools were started to be used in an efficient way.

Such a crisis atmosphere specified the significance of risk management tools such as “ stress test” and “ scenario analysis” .These tools are used with the purpose of

measuring the effect of the potential loss on the financial body that the banks may be exposed to in the hardest situations. International authorities like Basel Committee has started to act since the midst of 2008 to strengthen the regulation and applications of the risk management.

Our bank uses the basic risk management tools such as “ stress test” and “ scenario analysis” regularly in the decision-making processes. These tools have an efficient and prompting role especiall in the observation of the interest share and currency movements. During 2008, these tools were made use of in the management of the economic value of our shareholders equity against the severe fluctuation in the market.

Senior management of our banks provided “ risk limits” that shall comply with the annual budget of our bank and the growth strategy. The mentioned limits were arranged by seniro management and they became valid with the decison of the Administrative Body. Thus, the maximum credit risk, market risk, interest risk, liquidity risk and operational risk that our bank will undertake was expressed within a measurable and an acceptable frame. The level of our shareholders equity was examined carefully in the facility of the “ risk limits”.

In 2008, international economic conjuncture was considered, a careful risk management approach was adopted. The most important two factors were capital adequacy and liquidity risk management. Administrative Body accepted another risk limit concerning the sufficiency of “Principal Capital” in addition to the lehal “ Ratio of Capital Sufficiency” (Tier L Capital)as part of the observation related with the sufficiency of the capital. One distinct feature of “Principal Capital” is that it does not include the capital-like credits in the shareholders equity. With the acceptance of this limit, the maintenance of capital sufficiency, independently of the capital-like credits, was aimed at and it was achieved.

Also, in the liquidity risk managment that was all the time a current issue, the same careful manner was used. According to the regulation, the limits of “ Liquidity Sufficiency” that the banks are obligated to obey were accepted as “ risk limit” by the Administrative Bodyi and “ rick indicatives” were provided over these limits. Thus, the management of any change in the liquidity position without getting closer to the limits were enabled.

The bank was able to share all these phases, aims, indicatives and tables in a written way. Şekerbank had the sense of achievement that it is the first bank that was awarded with the title of “ The most transparent bank of Turkey”.

e. Increasing the credit capacity and market share

In the last 5-6 years, Şekerbank has focused its strategy in the small-scaled business firms. As a result of this, it increased both its credit capacity and marketshare. General Manager of Şekerbank, Meriç Uluşahin states that a growth will go on in this segment that is more profitable and less risky.

“In 2009 we acted with a strategy to give every support to our current customers and create new credit customers even if it is a bit choosier We had an achievement in this aspect. “ (Uluşahin,2010).

3- Why might Şekerbank be chosen in the market?

The question rates the Halit Yıldız (Deputy General Manager) to understand why Şekerbank was chosen by tadeworkers and small firms.He stated the reasons below:

a. Crediting Methods

As Şekerbank, our crediting methods are different. Banks are evaluating these credits regarding this segment in the individual, commercial or institutional credits. In Turkey, the grading system peculiar to this system is not a system that is used and applied too much. It has just been started to structured but these are done based on scoring. As the required information is not provided , the scoring system is not so much effective. If we are to consider the fact that % 70 of the guilds do not work with the banks, of course there is no information base related with the past. There is no financial table. Naturally they have difficulty in getting a credit. We can overcome these difficulties.

b. System is Different

We are applying a different system. We sit with the owners of these firms and we together examine what they have and they do not have, in what amount they will sell goods, they will buy raw material..We examine these and make a table. We plan

everything with the owner of the firm. We are carrying out the return of the project according to its budget..As this system's cost high, most banks do not do this. They don't want to do. Here is the difference of Şekerbank.

c. Closeness to the branch offices

Our branch offices are close to the guilds. All our branch offices are very close the guilds. We have sincere relationships with the guilds. We speak their language, we know the guilds and we are communicating with them all the time.

d. Difference of Personnel

In our branch offices people who have the competency to behave locally, who know the needs, dynamics of his/ her region very well, who are people of that region work and most of our branch offices are situated in the same place for half a century, it serves in the same place. This is coming to the front as an element of trust. We have very old branch offices that were established when there was no bank in most regions of Anatolia. We have customers who have been working with Şekerbank for two or three generations. We are the unique bank after the public banks in many places. Unlike the other banks we did not close a branch office during 2001 crisis and we added the new ones to the network of our branch offices. For example, there is no public or private bank in Alpullu. There is only Şekerbank.

e. The guilds aren't coming to us, we are going to the guilds

As Şekerbank, we visit the guilds personally. The guilds do not go the bank easily if they do not need, therefore we are visiting them. In the credits given according to the cash flow, if the firm does not need, we tell them that “ You do not need now, we can give you credit three months later. In some banks, guilds credits are given with three months postponing however the following payments are in the equal payments every month. No guilds can earn the same money every month. Some months they earn less, some months they earn more. In the months they cannot earn, they have difficulty in paying and it has a bad fame then. As for us, we do these things by foreseeing at first. If they demand more credit than they need, we ask. “ Your need is like this. What will you

do with more?” Then if they say “ I will buy automobile”, we orient them to another credit.

f. Effort is as much important as the financial tables

The fact that a shop has been active in the same year for 20 years is an important criteria. The information regarding how long time it is situated in that region, whether it is specialized in its own field, how many years it has been working is as much important as the financial tables. We are evaluating the financial tables as much as the efforts. For Şekerbank, the value of the efforts is significant.

4- What are your propositions for firms?

Orhan Karakuş gave an advise like that: “Short- term credits and long- term investments and plans should never be carried out. The fact that the payment date of the credits’ capital and interest and the income of the firm comply with each other is important. Here if they predict the cash flows well, if they put the information regarding how the cash flow will be in to a table under different scenarios that are for the future, it give very useful results.

Financial product or services that the SMEs will demand should be chosen in relation with the needs of them. Firms should make a good analysis of their own needs and they should decide for the product they shall demand. In this point, terms of use such as the due alternatives of the product that will be used, interest rates should be considered, the fact that it will meet all the requirements of the firm well should be taken into account.

6. CONCLUSION AND SUGGESTIONS

My thesis was based on a series of analysis to understand how effective would the management measures be helpful in order to overcome the impacts of crisis situations. During my study I also wanted to explore the effects of the environment when there is a systemic problem happening around the bank. The environment of uncertainty and competition conditions that nowadays enterprises encounter contains asymmetrical opportunities and threats for enterprises. It is impossible to produce solutions to the asymmetric threats special to an environment that many variables related to each other very closely, different from each other, affecting one other from many aspects, change speed of environmental variables is very high, change rate is very great, change interval is very short, change reasons are uncertain by means of symmetric approaches. In this respect, in order to avoid from asymmetric threats and dangers, hinder these threats and dangers and combat against these threats and dangers, enterprises have to think different and be flexible ever before. So, crisis should be managed.

This study reveals that, the biggest danger at the time of crisis is to keep inertia, not to give reaction and not to develop alternative against congestions. Crisis management at first entails the planning and to be prepared to manage the uncertainties which are possible to be faced. In general terms, crisis management can be described a range of functions or process to provide the determination of ways to fight against crisis or protect from crisis, the examination, determination, prediction of crisis states. Should enterprises fail to manage crisis, crisis will begin to manage enterprise and ruin enterprise. In this regard and in order to draw positive results from crisis, appropriate analysis of the reasons, dimensions, effects and route of crisis, making projections based on reliable data, taking required measures in time and correctly is a necessity.

As Banking Sector is directly influenced from financial crisis due to its sectorial structure, the characteristic of the product it manufactures and presents. In this sense, hindering potential crisis before their emergence is of great importance. In my thesis study, I tried to analyze the policies of crisis management, determine the reasons and results of the crisis experienced, detect the effect of the last crisis on the world and

Turkey and search and evaluate the viewpoints of managers before, after and during crisis. It is possible to summarize the results I have obtained in my study aimed at how the banks old, moderate but whose customer base is wide and loyal such as Sekerbank is affected in crisis environment, which measures are taken by bank management and the effect and results of the measures on Sekerbank.

As a developing country, Turkey comes up against many crises and may continue to come up. The economic crisis and especially economic crises in November 2000 and February 2001 for Turkey are mainly arisen from their own internal factors and dynamics in addition to external factors. Banking and finance institutions have been influenced seriously from these crises and important regulations have been developed.

A series of measures have been revealed to deal with these problems permanently, by putting the basic problems in economy forth through Program for “Transition to a Strong Economy after the crises of November 2000 and February 2001”. Program for transition to a strong economy has transformed to a program saving banking sector and the important decisions have been taken in this direction and sector has been strengthened, nearly restructuring it. However, the case of the banks caught unprepared to the crisis 2000 and 2001, having subjected to both financial and managerial regulations have lead to their entrance into the last crisis in more prepared and equipped and less exposure. Naturally, adoption of crisis management policies can also be defined as an advantage too.

Sekerbank, the institution I have used in my research has also exposed to restructuring process with the crisis 2000-2001 and determined crisis handling strategy. In addition, its entry to crisis period with a good financial table by efficient use of risk management tools has formed an advantage for the bank as well. As per the result of questionnaire carried out in the institution, when the viewpoint to crisis of managers is addressed, it is unfold that they see crisis as both threat and opportunity and adopt the approach of preventing crisis before its emergence as crisis handling strategy and taking the necessary action to solve crisis as soon as possible at the time of crisis.

When the strategies which are followed by managers to solve crisis and overcome crisis are examined, these can be resumed as keeping savings and investments balanced by making saving in resource consumption, decreasing costs, keeping on product and service production, continuance of regional banking understanding, policy on conscious

credit facility , search of foreign market possibilities, innovations at products and services and creating differences, presentation of attractive and appropriate package offers to customers, taking account of view, expectation and complaints of customer.

Finally, predicated on the tests, researches and examinations carried out in crisis environment, top management of Sekerbank has eliminated the impacts to give damage to bank in financial chaos, foreseeing the future. Top management has provided that medium level managers and other employees did not feel the negative effects of crisis, making right selections. Thanks to the measures taken, Sekerbank has managed customer bases properly and saved from crisis period successfully with the decisions taken considering possible effects of crisis.

Another recommendation I have attained at the end of my thesis study is that a crisis management plan prepared by expert persons, updated constantly, crisis management team and crisis guide should be generated within the scope of crisis management.

In order to be successful against future crisis situations, I recommend that: Following the end of crisis period, a situation analysis should be carried out. The objectives, targets and strategies of institution should be reviewed again. In order to return the situation before crisis or reach better position, necessary target updates and new targets should be determined. This can be named as back-testing. According to new data obtained, crisis management plans should be updated and the studies performed on crisis management should be evaluated. As crisis is a process, it should be prepared against a new potential or possible crisis.

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ATTACHMENTS

ANNEX I. RELIEF PACKAGES DEVELOPED BY FIVE INDUSTRIALIZED COUNTRIES IN THE WORLD

	JAPAN			CANADA	CHINA
	August 2008	December 2008	January 2009	January 2009	December 2008
Relief Package	16.5 billion dollar	100 billion dollar	54 billion dollar	32 billion dollar	566 billion dollar
Banking	4.3 billion dollar (400 billion Yen) credit guarantee		Japan Central Bank will make purchase from stocks in hands of banks and trading in exchange market		
Real Sector		Through a fund to be established, 16.7 billion dollar company share will be purchased	Extension of credit possibilities of small enterprises		
State Investment		spending package of 100 billion dollar			
Automobile Sector			22.3 billion cash payment from tax payers		
Tax				20 billion dollar tax	17.5 billion dollar tax assistance
Construction and Transport				7.8 billion dollar construction	
Health Insurance					
Employment and Education					
Infrastructure, Transport and Energy Investment	12 billion dollar				
Other	8.3 billion dollar to Canadians mostly affected from crisis and				

	7.5 billion dollar support to some sectors and regions					
	FRANCE			ENGLAND		
	October 2008	October 2008	February 2009	October 2008	February 2009	December 2008
Relief Package	320 billion Euro+40 billion Euro	20 billion Euro	26 billion Euro	250 billion sterling+ 200 billion sterling	50 billion sterling	Limitless
Banking	Giving debt up to 320 billion Euro to banks under state guarantee	Home loan		- 250 billion sterling guarantee for short and medium term debiting of banks - giving 250 billion sterling debt by central bank to provide existence of sufficient cash in banks - recapitalization of 50 billion sterling	Asset purchase facility of 50 billion sterling	Canadian Lenders Assurance Facility for 6 months (in assurance for institutions purchasing deposit)
Real Sector	With a fund of 40 billion Euro, purchase of shares in financial institutions	Household	11 billion Euro for improving cash flows of companies			
State Investment			11 billion Euro public investment			
Automobile Sector		Giving 1.000 Euro for those changing their automobile				
Tax						
Construction and Transport			4 billion Euro transport, energy, infrastructure			
Health Insurance						
Employment and Education			71.2 billion dollar			
Infrastructure, Transport and			165.9 billion dollar			

Energy Investment						
Other						
	USA			GERMANY		
	October 2008	December 2008	February 2009	October 2008	January 2009	
Relief Package	Limitless+ 700 billion dollar	Limitless+ 200 billion dollar	787 billion dollar	500 billion Euro	50 billion Euro	
Banking	Commercial Paper Funding Facility (In addition to current credit possibilities, facility to provide liquidity for termed funding markets of USA Federal Reserve Bank) (limitless) and purchase or taking under guarantee up to 700 billion dollar by Treasury within the scope of "Troubled Assets Relief Program"	Temporary Liquidity Assurance Program of FDIC (limitless) + Term Asset Backed Securities Lending Facility (200 billion dollar)	8.000 dollar home loan + heightening of TALF to trillion dollar	Purchase of shares from banks and giving equity when necessary		
Real Sector					+ 100 billion Euro credit guarantee	
State Investment					14 billion Euro	
Automobile Sector					1.5 billion Euro 2.500 Euro scrapping bonus per vehicle	
Tax			800 dollar tax refund per family		2.9 billion Euro tax cut	
Construction and Transport					1.8 billion Euro	
Health Insurance			90 billion dollar			
Employment and Education			71.2 billion dollar			
Infrastructure, Transport and Energy Investment			165.9 billion dollar			

Resource: Parasız, İ. (2009), *Finansal Krizin Güven Krizine Dönüşmesi Küresel Kriz*, Ezgi Kitabevi, Bursa.

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REFERENCES

Available upon request